



**THE EFFECTS OF HUMAN RESOURCE
MANAGEMENT PRACTICES AND KNOWLEDGE
MANAGEMENT STRATEGIES ON
ORGANIZATIONAL PERFORMANCE AMONG
JORDANIAN BANKS TOTAL QUALITY
MANAGEMENT AS A MODERATOR**

by

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LIST OF ABBREVIATIONS

AVE	Average Variance Extraction
CBB	Central Bank of Bahrain
CBJ	Central Bank of Jordan
CBK	Central Bank of Kuwait
CBO	Central Bank of Oman
CBUAE	Central Bank of the United Arab Emirates
CMV	Common Method Variance
COM	Compensation
CSFs	Critical Success Factors
DRD	Descriptive Research Design
DV	Dependent Variables
EFA	Exploration Factor Analysis
F2	Effect Size
FPB	Bank's Financial Performance
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoF	Goodness of Fit
HPW	High Practicing working
HR	Human Resource
HRD	Human Resource Development
HRM	Human Resource Management
ICT	Information and Communication Technology
IVs	Independent Variables
KA	Knowledge Application
KAc	Knowledge Acquisition
KC	Knowledge Conversion
KM	Knowledge Management
KMO	Kaiser-Meyer-Olkin
KP	Knowledge Protection
KS	Knowledge Sharing
MV	Moderating Variables

OP	Organizational Performance
PA	Performance Appraisal
PhD	Doctor of Philosophy
PLS	Partial Least Square
Q2	Cross Validated Redundancy Measure
QC	Quality Culture
QCB	Qatar Central Bank
QM	Quality Management
QWL	Quality of Life
R2	Coefficient of Determination
RBV	Resource Based View
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SAMA	Saudi Arabia Monetary Agency
SEM	Structural Equation Modeling
SHRM	Strategic Human Resource Management
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
TD	Training and Development
TQM	Total Quality Management
VIF	Variance Inflation Factors
VRIM	Valuable, Rare, Imitable and Non-substitutable

**Kesan Amalan Pengurusan Sumber Manusia dan Strategi Pengurusan
Pengetahuan kepada Prestasi Organisasi antara Bank-Bank di Jordan:
Pengurusan Kualiti Menyeluruh sebagai Moderator**

Abstrak

Dengan peningkatan kadar keciciran prestasi bank-bank negara, bank-bank Jordan terus menghadapi beberapa masalah ekonomi dan ketidakseimbangan dalam struktur ekonomi, hasil perbankan menyaksikan penurunan di dalam banyak kes. Oleh itu, kajian ini bertujuan untuk mengkaji kesan pengurusan kualiti menyeluruh (TQM) pada hubungan antara amalan pengurusan sumber manusia (HRM) dan strategi pengurusan pengetahuan (KM) terhadap prestasi organisasi bank di Jordan. Seramai 135 ketua jabatan dari bank-bank kebangsaan Jordan mengambil bahagian di dalam tinjauan itu. Hasil analisa Partial Least Square (PLS) menyokong semua pembolehubah dalam hubungan langsung hipotesis dengan prestasi organisasi. Khususnya, hubungan antara amalan HRM (latihan dan pembangunan, penilaian prestasi dan pampasan) dan strategi KM (pengambilalihan pengetahuan, penukaran pengetahuan, perlindungan pengetahuan, aplikasi pengetahuan dan perkongsian pengetahuan) serta prestasi organisasi di dapati signifikan. Hasil analisis juga menunjukkan bahawa TQM memoderasikan hubungan antara amalan HRM (latihan dan pembangunan dan penilaian prestasi), strategi KM (penukaran pengetahuan, perlindungan pengetahuan, aplikasi pengetahuan dan perkongsian pengetahuan) dan prestasi organisasi; manakala kesan kesederhanaan TQM ke atas pampasan, perolehan pengetahuan dan prestasi organisasi tidak disokong. Diambil bersama, penemuan kajian ini memberikan sokongan empirik kepada pandangan bahawa penciptaan nilai antara pembolehubah akan memberikan kelebihan daya saing. Bank-bank kebangsaan Jordan terutamanya perlu memberi tumpuan kepada pelaksanaan TQM, amalan HRM dan strategi KM untuk meningkatkan prestasi pengurus dan meningkatkan produktiviti dan keberkesanan bagi manfaat pengantarabangsaan yang mampan.

The Effects of Human Resource Management Practices and Knowledge Management Strategies on Organizational Performance among Jordanian Banks: Total Quality Management as a Moderator

Abstract

With the ever increasing attrition rate of organizational performance in national banks, the Jordanian banks continue to face a number of economic difficulties and imbalances in the economic structure, banking results witnessed a decline in many case. Therefore, this study aims to investigate the effects of total quality management (TQM) on the relationship between human resource management (HRM) practices and knowledge management (KM) strategies towards organizational performance of Jordanian banks. A total of 135 heads of department from Jordanian national banks participated in the survey. The result of partial least squares (PLS) path analysis supports all variables in the hypothesized direct relationship with organizational performance. Specifically, the relationship between HRM practices (training and development, performance appraisal and compensation) and KM strategies (knowledge acquisition, knowledge conversion, knowledge protection, knowledge application and knowledge sharing) towards organizational performance are found to be significant. The results of the analysis also suggest that TQM moderates the relationship between HRM practices (training and development and performance appraisal), KM strategies (knowledge conversion, knowledge protection, knowledge application, and knowledge sharing) and organizational performance; while the moderation effects of TQM on compensation, knowledge acquisition and organizational performance are not been supported. Taken together, the findings of this study lend empirical support to the view that joint creation of value between variables will confer competitive advantage. Jordanian national banks particularly should focus on the implementation of TQM, HRM practices and KM strategies to enhance managers performance and increase productivity and effectiveness for sustainable internationalization benefits.

CHAPTER 1: INTRODUCTION

1.1 Introduction

The part of an organization's activities that is concerned with the selection and recruitment, training, development and management of employees is regarded as human resource management (HRM) practices (Wall & Wood, 2005; Wright & Boswell, 2002; Wood & Wall, 2002; Armstrong, 2009). It is an organizational occupation that is concerned with employee dimensions towards realizing the objectives of an organization in a workplace (Arshad, Azhar, & Khawaja, 2014). Effective HRM practices and systems focus on the organizational performance level of the business and prevent it from being lethargic (Khilji, 2001). They also emphasize that an organization's effectiveness is proven by a strong bundle of activities and practices targeted at capitalizing on its strengths (Arshad, Azhar, & Khawaja, 2014). In this regard, it gives a better sign of support to the top management before the time of selecting and hiring suitable personnel, managing, and training them to meet up with the requirements needed to improve organizational performance.

In addition, both effective management and HRM practices are regarded as the assurance of continuous survival and performance of the organization (Guest, 2011; Bjorkman & Budhwar, 2007). The varying nature of humans makes HRM practices a complex task (Bamberger & Meshoulam, 2000), and organizations are financially competitive due to the capacity of the HRs in this highly technological era (Pfeffer, 1998). Therefore, it is always important for organizations to strengthen their HRM

practices and systems (Schuler & Jackson, 2005), because HRM practices are the managerial language used in writing the script of the relationship between employees and employment (Becker & Gerhart, 1996).

There are different ways the relationship between HRM practices and organizational performance have been considered. One perspective is that practices are additive and that they improve performance irrespective of the situation (Wall & Wood, 2005; Guest, 2011; Guest & Hoque, 1994; Pfeffer, 1994). The other perspectives stress on numerous kinds of “fit” (Wood, 1999; Wall & Wood, 2005). “Internal fit” postulates synergy between the practices, which means that their collective influence will be better than the entirety of their individual parts. For instance, it can be argued that choosing people without training them, or training employees without letting them to use result of the training, will have little impact; whereas, applying the three practices together will be beneficial. Indeed, Barney (1995) stressed that individual practices “have limited ability to generate competitive advantage in isolation” (p. 56). The second type is “organizational fit,” which concerns the function and role of HRM practices in enhancing the activity and effectiveness of other organizational practices, and vice versa. The final type is “strategic fit.” This suppose that HRM practices need to be adjusted with the organizational strategy “e.g., in the case of private businesses to their competing strategy” to give full effect to their performance (Katou & Budwar, 2006; 2007).

Therefore, achieving better organizational performance requires successful, effective and efficient exploit of organization competencies and resources to create competitive advantage locally and globally. HRM practices on selection, training and

development, compensation, performance appraisal, incentives, promotion, participation, work design, communication, involvement, employment security, and so on must be formulated and implemented by HRM practices experts with the help of line managers to achieve efficiency, cooperation among employees, cooperation with management, commitment, motivation, retention, satisfaction, presence, and other organizational performance success attributes.

In addition, organizational performance is an important result that the management and shareholders will use to evaluate the business processes and organization's activities. It is important because a perfect performance would give the shareholders and the investors' confidence in management and thus secure a sustained and profitable organization future. Organizations that are responsive to changes in the business environment are understood to be able to gain competitive advantage. Organizations usually look at knowledge management strategies as a method of improving organizational performance, but the processes of knowledge creation, storage/retrieval, and transfer do not necessarily lead to that preferred enhanced organizational performance; however, effective knowledge application does (Lam et al., 2011; Brewer & Brewer, 2010; Andolsek, 2014).

On the other hand, organizational performance often depends on the ability to turn knowledge into effective work and less on knowledge itself. Adopting best practices and sharing knowledge. Therefore, has to be infused into the way people interact in the organizations. In this regard, knowledge management (KM) strategies and HRM practices have been a vital theme in management and business research for the past decades due to its potential to ability and gain to sustain organizational

performance (Lam et al., 2011; Brewer & Brewer, 2010; Andolsek, 2014). In business environment, KM strategies and HRM practices are used as strong and powerful tools to quantify the way businesses functions. Several examples in the literature have highlighted how the adoption of KM strategies or HRM practices have enabled many organizations achieved sustainable organizational performance (Arunprasad, 2016) and to sustain development (Gloet, 2006).

Previous studies (Gloet, 2006; Gloet & Berrel, 2003; Hansen et al. 1999; Edvardsson, 2008; Haesli & Boxall, 2005; Oltra, 2005; Afiouni, 2007; Afiouni 2009; Svetlik & Stavrou-Costea, 2007; Theriou & Chatzoglou, 2008; Yahya & Goh, 2002; Shih & Chiang, 2005) and recent studies (Jimenez-Jimenez & Sanz-Valle, 2012; Horvat & Bobek, 2015; Singh & Rao, 2015; Brewer & Brewer, 2010; Arunprasad, 2016; Andolsek, 2014) have linked effective of HRM practices and KM strategies to improving organizations' competitive advantage and organizational performance (Hansen et al., 1999; Nordstrom & Ridderstrale, 2000; Gloet & Berrell, 2003), promoting sustainable development (Gloet, 2006), enhancing organization innovation performance (Scarborough, 2003; Lam et al. 2011), and improving organizational performance (Afiouni, 2009; Figueiredo et al., 2016; Theriou & Chatzoglou, 2008).

Hansen et al. (1999) and Brewer (2010) linked both KM strategies and HRM practices to improve organizational performance of the organization. They stressed that it is not knowledge in itself but the way it is applied to strategic objectives that is the critical ingredient of competitiveness. This indicates that the effective management and leveraging of all types of knowledge within an organization is a way to value creation and competitive advantage in the contemporary global environment (Afiouni, 2013;

Nordstrom & Ridderstrale, 2000). The utilization of knowledge requires a complicated understanding of social web, technical, financial, and human resources (HR) that must be tapped by organizations if any competitive advantage is to be derived (Donate & Guadamillas, 2015; Gloet & Berrell, 2003). Therefore, for KM strategies to contribute to organizational strategy effectively, organizations must strengthen the linkages between KM strategies, HRM practices, and organizational performance (Donate & Guadamillas, 2015; Gloet, 2006; Gloet & Berrell, 2003).

Moreover, Gloet (2006) argued that KM strategies and HRM practices promote sustainable development through the application of knowledge that act as resources. The deeper the intensity of information and knowledge exchange, the better the chances for developing effective leadership and management capabilities to support sustainability. Meanwhile, Lam et al. (2011), Edvardsson (2006), Thite (2004), Chivu and Popescu (2008) and Donate and Guadamillas (2015) stressed that the connection between KM strategies and HRM practices at the high end of value chain will lead to create and sustain a culture that fosters creativity, learning and innovation in organization.

Furthermore, various studies show the major contribution of HRM practices and KM strategies to organizational performance and the quality of services provided (Absar, 2012; Bontis & Serenko, 2009; Chen and Huang 2009; Darwish & Singh, 2013; Guest, 2011; Katou & Budhwar, 2010; Vanhala & Stavrou, 2013). Afiouni (2007) and Afiouni (2009) argue that integrating HRM practices and KM leverage both human capital and value creation, and then drive organizational performance. This is because HRM practices do not directly increase organizational performance but assist in

improving employee's skills and knowledge (i.e., human capital), to facilitate interaction of group and knowledge sharing (i.e., social capital), and enables the organization to store knowledge within the system, processes, routines and cultures, which then drive organizational performance.

1.2 Background of the Study

Similar to another economy sectors, and because of the environment characterized by turbulence and constant change, the services sector includes the financial sector, it has been subject to the main structure, legal, and technological changes. In recent decades, as there has been a change in the financial sector has recorded unprecedented growth rates, being the main body responsible for international commerce (Figueiredo et al., 2016). It is estimated that in 2020, the weight of this sector in global exchanges will rise to 50% (Tome, 2011). Although the economic sector has the the highest growth rates in development and developing countries, it is the one to which researchers have paid least attention (Legge, 2005; Tome, 2011). Nevertheless, some studies emerged (e.g., Darwish, T. K., Singh, S., & Wood, 2015a; Figueiredo et al., 2016; Bontis & Serenko, 2007, 2009; Cabrita & Bontis, 2008; Theriou & Chatzoglou, 2009) aiming to explore and understand questions of intellectual capital, organizational learning, HRM practices, and KM strategies in the banking sub-sector. Common to all these studies is the assumption that intangible assets and their management and the sector organizations are the determinants of the competitiveness.

Banking activity is one of the most important activities in the economic system of any society, in which all economic activities begin and end, the economic output of

the society will be determined as the bank's contribution in their capacity to act in this transaction, resulting in wealth, legitimacy and Proper predictions (Saleem, 2007). The bank expanded their role, and by doing so, they contributed to the new diversity aspect into the world. The bank change strategy to attract and retain the clients and utilize HRM practices for modern and sophisticated approaches to storing money and providing clients with the expected returns. As a result, banks earn profit rate increases (Wedyan, Gharaibeh, Abu-dawleh, & Hamatta, 2012). Therefore, there is an urgent need for banks to adopt and apply these practices in their business dealings as they provide speed, accuracy, and efficiency to management practices by providing relevant information at the highest speed at the lowest cost (Alrabei, 2014). Also, various practices applied to banks are influenced by the environment variables around them, on the one hand, and their practices and development, on the contrary. Banking activity is highly responsive and sensitive to all variables, inputs, and incidents related to the banking environment, locally and internationally. This usually requires an integrated HR department to rely on at least security, trust, and objectives for all involved (Dandago & Rufai, 2014).

In addition, a number of specialized studies have emphasized that banks and financial institutions play an important role in economic growth, more efficient and effectively than the current system in the market. HRM practices have been reported to be one of the most important in the banking organization responsible for supporting banks in the management of economic growth (Alrabei, 2014). This is due to the nature of the financial operations of this sector, the presence of risk elements in this operation, and the suitability of HRM practices. In addition, the availability of speed and accuracy components is needed in the provision of information, and HRM, as its role as

intermediaries between savers and investors, has pushed strong ties with other economic activities, with concern for investors' confidence (Alrabei, 2014; Dandago & Rufai, 2014). This is why the bank is currently using HRM (selection, training and development, compensation, performance appraisal and career development) in various ways and for various purposes.

The Jordanian economy continues to face several economic difficulties and imbalances in the economic structure with different components. This comes as a direct result of the global economic situation, uncomfortable situation in the neighboring countries, which are considered as the biggest obstacle of Jordanian economy and this, has caused the performance of banks in the Jordan to decline from 2014 to 2015 (see Table 2.4) (Suleiman, 2015, 2016). Moreover, the comparison of banking sector performance for the Hashemite Kingdom of Jordan with Gulf cooperation council (GCC) for the Arab states of the Gulf revealed that GCC have higher performance level than Jordanian banks (see Table 2.5). The GCC consists of all Arab states of the Gulf, its member states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (Mahmood & Al Fozan, 2016).

HRM practices are important for banks primarily because banking is a service industry. People's management and risk are the two main challenges faced by banks. How does one manage people and the risk of determining someone's success in the banking business (Quansah, 2013). Efficient risk management may not be possible without an efficient and skilled workforce. Banking has and will always be a "people's business." Although prices are important, there may be other legitimate reasons why people choose and live with a particular bank. Banks must try to differentiate