

# **People as a Source of Competitive Advantage during Recruitment and Retention of Senior Managers in Financial Services Sectors in Laos**

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**Abstract:** The focus of the paper is to identify the importance of recruiting and retaining senior management in the banking industry in Laos. Both quantitative and qualitative research methods were adopted to collect data from three banks in Laos. Interview section: the questions were to explore the understanding of concepts of HRM, perspectives towards HRM about recruitment and retention. Questionnaire section: part one - demographics data, part two attitudes towards HRM processes recruitment and retention. Findings: HRM plays a critically important role in banks in keeping their competitive advantage; lack of development and implementation of HRM practices and policies to recruit and retain the right people.

**Keywords:** Competitive advantage, Recruitment, Retention, Strategic partner

## **1. INTRODUCTION**

Human resource management (HRM) plays a critical role in determining organizations' success, and it is a process of acquiring, training, appraising and compensating employees. According to Du Plessis (2015) and Nel et al. (2014) employees are truly the most important asset an organization has. It is the hearts and minds of people, rather than their hands, that are essential to growth and prosperity for an organization (Cascio, 2010).

Managing employees as assets that are also fundamental to the organization to achieve competitive advantage it is stated by Nel et al. (2012) that employees are the lifeblood of organizations. An organization's workforce represents one of its most potent and valuable resources. As a result, the extent to which a workforce is managed effectively is a critical element in enhancing and sustaining organizational performance. Committed human resource (HR) practitioners who create new ideas, deliver value and innovate for growth in order to maximize organizational performance are key assets of organizations (Noe, Hollenbeck, Gerhart, & Wright, 2010; Redman & Wilkinson, 2009).

In today's competitive and dynamic global business environment, it is very important for organizations to have effective HR systems that select, develop and produce a level of performance that can justify organizational investments (Du Plessis, Nel, San Diego, 2013). According to Du Plessis (2015) for businesspeople, globalization's essential characteristic means that increased globalization meant increased competition and increased competition meant additional pressure to be world-class with higher productivity at lower costs.

HR managers who are knowledgeable in effective workforce management also play critical roles in companies, to support future competitive endeavours. It will be even more challenging for countries that for historical and political reasons have not long been engaged in the open economic market and Laos is one example of such a country.

A New Zealand Herald newspaper article (McIvor, 2011, January 28) emphasizes that HR managers also play a critical role in companies that are knowledgeable to manage the workforce effectively and support future competitive endeavors. Managing a company's human resources effectively gives the HR manager extra hands and legs. However, this is not a straightforward matter for HR at the managerial level in the financial sector of the Lao economy.

The recruitment of Lao nationals to take managerial positions and to retain them has proven to be problematic. Initially, there were insufficient teachers and finance professionals to teach and mentor students and employees in this sector, and this resulted in low numbers of graduate students in finance, as well as employees who were not suitably qualified to work for international organizations investing in Laos (Bank of Laos, 2008; United Nations Development Programme, 2006).

Although there are two universities and five financial training institutions to provide knowledge to students on financial topics, these institutions do not possess the level of skill, knowledge, and capacity needed to provide relevant training for Lao students. In many cases, lecturers need to upgrade both their financial knowledge and real world experience to effectively apply modern study materials rather than rely on outdated resources and processes (United Nations Development Programme, 2006).

Currently, Lao students have to look to foreign countries such as Thailand, Australia, New Zealand and Singapore in order to gain relevant qualifications and real world experience. Upon completion of their studies, some did not return to Laos because of more lucrative career opportunities in the countries in which they had studied. For those who did return, it is often difficult to adapt to a local system of working that is different from the countries where they had studied (United Nations Development Programme, 2006). Educated people are needed in a country such as Laos to maintain the financial industry's competitive advantage.

## **2. PROBLEM STATEMENT**

The problem is that for many years Laos was in political turmoil, with significant loss of life, and many of the more highly educated people moved to other countries as refugees in order to pursue better lives. Hence, Laos has had to wait for a new generation of qualified employees to fill the gap (Gifford, 2003). Laos was in a very weak condition, with a dearth of opportunity, a lack of capacity, and complete isolation from the rest of the world.

From the 1990s onwards, Laos began to integrate into an open economic system, changing from a small and self-contained market into a larger economy that actively sought to trade across borders. There was a sharp increase in foreign direct investment flow into Laos and, at the same time, the emphasis was put on people who could be recruited in senior positions in local banks and other financial institutions. The problem, therefore, is that they began to experience a need for knowledgeable staff in higher positions, to fill their employment vacancies and expand the scope of their businesses. This in turn led to an increase in demand (recruiting) for financial sector managers with the necessary knowledge and qualifications to take the country into this new environment and also retaining them to increase or sustain their competitive advantage.

## **3. AIMS OF THE STUDY**

An increasingly competitive nature of business today means that all managers, including HR managers, must justify their plans and contributions in measurable terms in order to gain a competitive advantage (Du Plessis, 2015; Du Plessis, Nel, San Diego, 2013)

The aim of this study is to identify the importance of retaining senior management resources in the banking industry in Laos from the perception of the relationship between human resource management and organisational performance.

## **4. LITERATURE REVIEW**

Nel, Werner, Botha, Du Plessis, Mey, Ngalo, Poisat & Van Hoek, (2014, p.16) define HRM as “the productive use of people in achieving the organisation’s strategic objectives and the satisfaction of individual employee needs”; and Marchington & Wilkinson (2008, p. 8) posit that “human resource management is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic development of a highly committed and capable workforce using an array of cultural, structural and personnel techniques”. These definitions highlight how HRM seeks to manage knowledge assets, and potential employees in organisations, in order to achieve high levels of performance.

The general purpose of HRM is to make sure that the organisation is able to achieve success through people, because people are the organisation’s key source of competitive advantage through their commitment, adaptability and high level of skill as well as performance. Organisational performance, therefore, mainly depends on them (Armstrong, 2009; Dessler, 2011; Lengnick-Hall & Lengnick-Hall, 2003). HRM also sets out a strategy that focuses on supporting plans for improving organisational effectiveness, fostering policies in areas of knowledge management, developing talented managerial staff, and making the organisation a good place to work (Dessler, 2011; Noe *et al.*, 2010).

HRM is a major force in organisational success and a key contributor to the consistent improvement of the organisation’s performance (Huntley & Kleniner, 2005; Hussey, 2002). Like many other areas of management, HRM involves setting policies, formulating plans and trying to make the best decisions possible (Brewster, 2004). HR policy involves how people should be managed in the organisation and how employees should be treated. The policy provides guidance on how HR issues should be dealt with, for example, employment issues, discipline, capability and redundancy (Noe *et al.*, 2010).

The aim of an HR policy is to ensure that HR issues can be dealt with consistently in accordance with the values of the organisation in line with certain defined principles (Byars & Rue, 2008). The overall HR policy determines how the organisation fulfils its social responsibilities to employees and sets out its attitudes towards them, and shows its values and beliefs about how employees should be treated (Armstrong, 2009; Rodriguez & Rios, 2007).

In the new knowledge economy, the emphasis is more on people and they have become a key source of competitive advantage for many organisations, and this has important implications for their management. Human capital is a key resource for most organisations, regardless whether they are manufacturing or service companies, large or small domestic or international, profit or non-profit, government or non-government (Byars & Rue, 2008; Cascio, 2010; Zupan & Kase, 2007).

Thus, it is critical to recruit and select the right employees who will be well integrated and contribute to their best competence (Marchington & Wilkinson, 2008; Noe *et al.*, 2010). An HR department should prepare to recruit talented people in the labour market and then find ways to motivate, train, compensate and retain those skilled individuals (Byars & Rue, 2008; Hussey, 2002). In today’s competitive market, organisations have to engage in strategic planning in order to survive and prosper.

Strategic management is a process, a way to deal with the competitive challenges organisations face, a pattern that integrates an organisation’s crucial aims (Noe *et al.*, 2010). It is clear that HRM plays a significant part in organisational performance. This factor indicates the transition of HRM from a traditional service to the newer service of business partner services and strategic partner (Nel *et al.*, 2014; Dessler, 2011; Noe *et al.*, 2010; Walker, 2000). Some organisations have even renamed their HR generalist to “business partner” in order to show their support and indicate a strategic working relationship between the HR department and other departments (Noe *et al.*, 2010).

In many organisations the amount of time HRM departments devote to traditional administrative tasks is decreasing, and they are increasing their roles as a strategic business partner. Redman & Wilkinson (2009) also agree that strategic approach might require HR functions to evolve from a simply administrative role to become a responsible strategic partner in order to contribute to the organisational achievement. The role of strategic partner focuses on processes rather than employees, and this can lead to HR managers neglecting the primary role of improving employee well-being (Redman & Wilkinson, 2009).

Furthermore, having new technology, the Internet, for instance, can make administration of service such as routine activities, maintaining records and providing self-service to employees, more efficient and effective. This provides more time for HR to focus on strategic issues. However, organisations need to make sure that their HRM functions are creating value for the firm and managers should become more responsible for HRM practices (Noe *et al.*, 2010).

New technologies and management approaches are additional challenges for human resource managers. Technology has affected human resource managers in many ways. The most obvious is in information system sphere which is changing business operations significantly (Dessler, 2011). Where previously the traditional function of accounting and payroll calculations were used these have been replaced by computerised information systems (Byars & Rue, 2008). Cyberspace and the Internet are keys in changing the traditional way many human resource managers operate. For example, the Internet can be used for engaging in valuable networking and discussion. Furthermore, some organisations establish Web-based human resource systems that allow employees to complete their human resource tasks online and enabling them to view current and historical pay information and a range of benefits. This all means an increasing need for human managers to learn such new technology (Byars & Rue, 2008; Dessler, 2011).

As the Laos continues to integrate into the global community, organisations in the Lao financial sector need leaders who can make good decisions and plan good business strategies. As Armstrong (2009) notes those people are the organisation's key source of competitive advantage, and an appropriate range of HR policies and processes need to be developed and implemented in order to impact positively on firm performance. However, without such leaders, some organisations can find themselves in difficult situations when taking part in domestic and international trade, and a failure to take full advantage of existing and future opportunities can often be attributed to a lack of human capital in the form of effective leadership skills.

People are the key factor to organisational success, innovation, and profitability. So recruiting employees and maintaining the employment relationship is considered a crucial step in framing the organisational structure and the future of the organisation (Central Bank of Egypt, 2007). HR managers also make sure that employees are placed in appropriate positions with the right skills and at the right time. The following stage is developing and maintaining those employees (Caye *et al.*, 2008; Milla, 2006). HR managers should focus on ways to build employees' skills, motivation and commitment to meet the needs of organisations. Remuneration and benefits, training and development are the key elements to work forwards achieving those desires ( Du Plessis & Frederick, 2012; Bartol *et al.*, 2008; Caye *et al.*, 2008; Milla, 2006).

Finding, evaluating and assigning individuals to work are all fundamental processes of staffing the organisation. Appropriate selection tests and strictly controlled recruitment will give those employees who are selected a sense of quality, and high expectation of performance (Webster, 2011). Recruiting suitable employees is difficult, time-consuming and there is no guarantee of getting the right employees, therefore, once the organisation has done it. HR managers should ensure that they stay (Du Plessis, Paine, Botha, 2012; Caye *et al.*, 2008; Milla, 2006). Although employees leave their jobs for many reasons, the main reason is that employees choose to leave their managers rather than their organisations because the workplace culture is driven from the top. If the management level

does not perform its job properly then employees are unlikely to obtain job satisfaction, and they will seek it elsewhere (Main, 2008).

## **5. METHODOLOGY**

### **5.1 Sample Selection**

The scope of this research focuses on HRM in the financial sector and the shortages of HR at managerial level in Laos. The banking sector plays an important part in the Lao economy and therefore, the survey was conducted on a sample frame population of the leading banks in Laos. The sampling technique for this research is representative sampling and thus offers the entire population of employees an equal opportunity to get involved. Another reason for choosing representative sampling is that it is commonly used for surveys and allows for statistical analysis and summarised characteristics of the population from the sample (Saunders *et al.*, 2009). The key selection and participation condition for this study were respondents who work in the banks. As of 10 October 2010, the total number of banking employees in the three banks was 626.

### **5.2 Pilot Study**

After finishing translating the questionnaire and in-depth interview questions into Lao, the researcher also conducted a pilot study in Laos. Six banking employees who worked in the Indochina Bank in Laos were invited to be involved in this study. Before distributing the questionnaire of the survey, these employees were asked to give constructive feedback on translation in order to avoid losing any meaning in translation.

### **5.3 Questionnaire Data Collection**

The questionnaires were collected by the researcher on 24 November 2010, 26 November and 30 November in the banks of Lao Foreign Trade, Lao Viet Bank and ANZ bank in Laos respectively. The reasons for choosing these organisations are Bank of Lao Foreign Trade is the biggest state-owned bank enterprise and also the leading bank in Laos, having over 420 employees. Lao-Viet Bank is a joint venture bank between Laos and Vietnam and it has branches both in Laos and Vietnam with over 130 employees. ANZ Bank in Laos employs more than 106 staff and it is a foreign direct investment bank.

### **5.4 Interview data collection**

The researcher visited the HR managers in three banks to conduct three pre-arranged interviews. The interviews took about 40 to 60 minutes for each interview with the HR manager from the three banks. The researcher asked the HR managers 13 main questions during the interview. Two interviews were recorded while the one HR manager did not feel comfortable to make an audio recording while the interview was in progress and preferred the researcher take notes. The entire interview process was conducted with confidentiality and in a highly respectful way from both sides. After finishing the interviews both parties still carried on some discussion on HR issues, this shows that the HR managers were interested in these issues.

### **5.5 Data Analysis**

A quantitative methodology was utilised to analyse the all completed questionnaires and responses data from the survey were entered into a programme called Statistical Package for Social Science (SPSS). This programme utilises quantitative analysis in terms to manage, analyse and present the data. The researcher chose this program because of its useful functions in analysing large amounts of quantitative data and it also facilitated the researcher to carry out several statistical tests precisely and swiftly; for example, presenting graphs, tables, and charts. The graphical presentation is a helpful technique for presenting basic descriptive statistical data that will help readers understand the entire survey more easily. The researcher used a descriptive method to analyse the survey results, for instance, frequency distributions, standard deviations and mean to examine the data in more detail.

## **6. ANALYSIS OF THE RESULTS**

The focus of this research is to identify the importance of recruiting and retaining senior management resources in the banking industry in Laos from the perception of the relationship between human resource management and organisational performance.

### **6.1 Recruitment**

Recruitment and retention are important HRM processes and having the right people filling the right positions from the beginning will help the organisations save both time and money. It is interesting to note that 41.8% of the respondents (from the three banks) understood that the banks should recruit people by promoting within the organisation. Retention of high-performance employees is the primary focus of HRM practices. However, it becomes more challenging for employers in a competitive market today, and organisations should provide good working conditions and motivate employees to reduce turnover. Retention is about keeping the employees who are producing the results that the organisation needs (Frank, Finnegan, & Taylor, 2004). With employees being acknowledged as valuable assets and a competitive advantage of organisations management are facing more challenges in the competitive market environment in not only looking to retain high-performance people but all those employees who are meeting organisational needs (State Training Board, 2007).

### **6.2 Retention**

Respondents, (48.3%), from this study, suggested that better working conditions and bonus schemes are the best methods to retain high-performance people. The results show that HR managers have the ability to attract, develop and retain individuals who can contribute the most valuable outcomes to the organisations by providing good working conditions and appropriate remuneration. Respondents were asked to provide an evaluative rating of the HR functions to enhance retention that applies for HR in their organisations. Respondents from the three banks revealed that in general this is viewed as positive. This suggests that all of the aspects; for instance, meeting day-to-day functions in respondents' organisations, developing employees' careers, financial reward for employees, recognition of employees' contribution to organisational success, securing compliance with employment regulation and improving employees competencies to achieve business targets, are key dimensions for enhancing high-performance employee retention.

In a study done by Paine (2009) recruitment and retention were identified as the most commonly cited priority in the HR function, i.e. to recruit and retain key staff and a total of 91.6% of the respondents in her study regarded as highly important. Clearly, HR practitioners in her survey are preoccupied with this activity. The intensifying competition for talent makes recruitment and retention a key priority for organisations, and it is imperative for HR practitioners to rethink their organisations' plans to attract and retain employees. This research found that recruitment and retention are significant parts in the HRM process and are key contributors to organisational performance in achieving fruitful outcomes.

## **7. RECOMMENDATIONS FOR HR MANAGERS**

- Lao banks should ensure that their HR managers have a sound knowledge of diverse cultures because they recruit globally.
- Assessment of the organizational HR policies and employee guidelines to ensure that the right people are recruited for the right job.
- The HR managers should provide clear expectation from the bank's HRM department to get employees to know what the bank's policy is regarding promotion or recruiting within the bank for senior positions.
- HR managers should implement and maintain competitive pay practices and benefit programs to foster a motivational climate for employees

## **8. CONCLUSION**

The research focuses on investigating HRM practices in three banks in Laos, Bank of Lao Foreign Trade, Lao Viet Bank and ANZ Bank in Laos. Collecting data and studying the current HRM practices in these banks was carried out with the emphasis on people to identify better ways for selection, recruitment, retention of senior managers.

The research executed interviews with the HR managers from these banks and also conducted a questionnaire survey of employees. The researcher achieved expected results from these banks. In analysing the results, the researcher observed that an increasingly critical role of HRM is to influence the banks' management to enable these banks to remain competitive. HRM is a necessary managerial function for providing effective and fair policies to create and control relationships in the workplace.

Recruitment and retention are key challenges faced by HRM practices in Laos while the nation is expanding its economy. According to the HR manager at the ANZ Bank, recruitment is a real problem for his bank because there are about ten different banks operating in Laos at the moment and to attract the right talented people is very important. To attract potential candidates, every bank has to provide reasonable policies based on the local market conditions and understand what candidates need, for example, providing employees with training and development opportunities and better-working conditions. The HR manager of ANZ Bank in Laos went on to say, despite offering good options, the pool of talent is limited in Laos. Therefore, the bank sometimes has to employ workers because they need a person to fill a certain position, even if that person is not the right one for the job. This clearly shows that shortages of HR people have impacted on banking recruitment and these banks have to come up with good strategies to attract potential candidates in their workplaces.

Retention is another challenge for Laos, and these banks have to make retention of senior managers a primary focus of HR management practices. It is becoming more challenging in today's competitive market. The HR managers from these banks stated that most of their employees left for better-working conditions and too often, they did not give any warning signs before leaving. The results from this research also indicated that 48.3% of respondents from the three banks understand that better working conditions and an effective bonus scheme are the main factors for employee retention. This is a clear indication that if the organisations do not treat their employees properly, the best people will have different options and be the first to leave.

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