

# STRATEGIC INTEGRATION OF HUMAN RESOURCE MANAGEMENT PRACTICES: EVIDENCE FROM THE KINGDOM OF SAUDI ARABIA

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## Abstract

*The role and contribution of human resource management is constantly evolving and now with the epoch of globalization it calls for the integration of HRM practices with business strategy. This paper examines the strategic human resource management practices in the telecom industry of the Kingdom of Saudi Arabia (KSA). First, the study understands and examines the meaning of SHRM and then the strategic HR practices are reviewed and analyzed as adopted by the telecom sector of KSA. The study also investigates how differences in HRM practices in telecom industry vary with their ownership forms. The data was obtained from a sample of 121 senior HR managers by means of survey and interviews. The data analysis is based on statistical tools of descriptive statistics and paired sample t-test applying SPSS. The findings suggest that although a few steps have been taken by a handful of companies to improve the human resource practices the role of SHRM still remains secondary in the KSA. Results indicate a moderate adoption of strategic HRM practices in the telecom industry. There is indeed a significant difference between the level of strategic HRM alignment, training and development, career planning system and employee participation in the domestic and the multinational telecom companies. The major constraints faced by a multinational company to operate in the KSA are also discussed. To survive and succeed in the global net, companies are recommended to improve integration of HRM practices into their overall operations and strategies that lead to organizational effectiveness. They should be encouraged to adequately plan for the career development of their employees as well as give them adequate opportunities to participate in taking strategic as well as tactical decisions affecting their work environment.*

## Introduction

In this era of globalization and expansion of economic integration among companies around the world, the importance of human resource gets magnified. The HR department needs to support the business goals. The need of the hour is to achieve strategic integration and alignment of HRM with business strategies. Integration of HRM refers to the involvement of HRM in the formulation and implementation of organizational strategies and the alignment of HRM with the strategic needs of an organization (Schuler and Jackson, 1999). Integrating the use of HR practices into the strategic planning process would enable the companies to better achieve their goals and objectives. Strategic Human Resource Management requires the HR function to broaden its remit from purely operational matters towards a more strategic approach. HR managers must participate in strategic discussions within the business and, importantly, add value to these discussions as a business partner. Strategic Human Resource Management also implies a managerial orientation that ensures that human

resources are employed in a manner conducive to the attainment of organizational goals and mission (Gomez-Mejia, Balking and Cardy, 2005).

### **Kingdom of Saudi Arabia and Its Telecom Sector**

KSA is the world's leading exporter of oil, and this position will remain so in the future, given its unparalleled oil reserves. KSA "holds more than 20 percent of the world's proven oil reserves" and oil accounts for "roughly 80 percent of budget revenues, 45 percent of GDP, and 90 percent of export earnings" (CIA, 2011). Many economic conditions and government policies in the KSA today favor foreign investment. The total capital investment injected into the joint venture factories under the Foreign Capital Investment Law reached SR. 86.4 billion by the end of 1994. Large state corporations, generally monopolies, dominate the Saudi economy. These firms include the oil firm Saudi ARAMCO, the Saudi Basic Industries Corporation (SABIC), The Saudi Telephone Company (STC), and several other large firms.

The Saudi Telecommunication sector is regulated by a state entity known as the Communications and Information Technology Commission (CITC). The telecommunication sector of the KSA witnessed privatization in the year 2002 and since then a large number of international telecom companies have shown interest in this sector. The telecom service provider has only four players, namely, Saudi Telecom company (STC) which is a public owned company, Mobily (Etisalat group), Zain (Kuwait based company) and Integrated Telecommunication Company (ITC). Out of these STC and ITC are Saudi-based companies and have presence in Saudi Arabia and Bahrain. The other two players, Mobily and Zain have presence in all different countries in the Middle East and Africa region. Therefore, the total telecom companies operating in the KSA are four out of which two are domestic and the other two are multinational.

### **Literature Review**

Strategic HRM basically deals with long-term issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future needs. In order to justify their own existence, HR functions had to be seen as more intimately connected with strategy and day-to-day running of the business side of the enterprise. According to Walker (1992), strategic HRM is defined as "the means of aligning the management of human resource with the strategic content of the business and human resource strategy so that the latter supports the accomplishment of the former and, indeed, helps to define it." Strategic HRM involves designing and implementing a set of proactive HR policies/practices that ensures that an organization's human capital contributes to the achievements of its corporate objectives (David, Chin and Victor, 2002). SHRM highlights the growing proactive nature of the human resource (HR) function, its potential importance to the success of organizations and the possibility of change in the HR function from being reactive, prescriptive, and administrative to being proactive, descriptive and executive (Boxall, 1994).

It is important that the strategic HRM focuses on the integration of business strategy with HR strategy. This shift in managerial thought, calling for the HR function to be 'strategically integrated', is depicted in Beer et al.'s (1984) model of HRM. The authors espoused the need to establish a close two-way relationship or 'fit' between the external business strategy and the elements of the internal HR strategy. The concept of integration has three aspects:

- The linking of HR policies and practices with the strategic management process of the organization
- The internalization of the importance of HR on the part of line managers

- The integration of the workforce into the organization to foster commitment or 'identity of interest' with the strategic goals.

Huang (1998), in his comparative study of strategic HRM practices among American-owned, Taiwan-owned and Japanese-owned firms, examined the strategic level of HRM among 315 Taiwanese business firms. Using the General Linear Model (GLM) and Scheffe multi-range test as methods of statistical analysis, the findings indicated that American-owned businesses were discovered to engage in strategic human resource management (SHRM) more frequently than Japanese- or Taiwan-owned enterprises. A positive relationship was also found between the amount of capital resources available to firms and the extent to which they practiced SHRM. Huang also reported that firms engaging in SHRM received a higher rating than other firms on the indices of organizational morale, financial performance, and overall performance. Richard and Johnson (2001) examined the impact of strategic HRM effectiveness (ratings of how effective a variety of HR practices were performed) on a number of performance variables. With the aid of multiple regression analysis, they found that strategic HRM effectiveness was directly related to employee turnover and the relationship between these measures and return on equity was stronger among banks with higher capital intensity (greater investments in branches).

Strategic HRM has been conceptualized by the high commitment work practices (HCWP), configurationally and contingency fit approaches (Takeuchi et al., 2003). The HCWP perspective emphasizes employee empowerment and progressive practices in selection, training, rewards, recognition, information sharing, team building, and socialization (Geisler, 2005; Sullivan, 2004).

Empirical research has demonstrated the effectiveness of strategically aligned HRM practices, such as selection, training, and development (Hatch and Dyer, 2004), participation and development (Karami et al., 2004), rewards and recognition in TQM programs (Chang, 2005), and social networks as a mediator (Collins and Clark, 2003). Applying a stratified random sampling by industry, Kai (2007) surveyed 231 firms listed on the Australian Stock Exchange (ASE). Results obtained through the use of descriptive statistics and correlation analysis indicate that strategic integration and devolvement of HRM were practiced to a moderate extent in the firms sampled, and that the degree of alignment of HRM with business objectives and strategies had a positive relationship with perceived firm financial performance.

Robina Yasmin (2008) examined the relationship between HRM (Human Resource Management) systems and performance using data from 192 manufacturing companies operating in Pakistan. The study examines this relationship in two ways: direct impact of HRM systems on performance and indirect impact or effect of HRM systems on performance through HR outcomes. The study emphasizes the systematic and integrated use of behavior-oriented HRM practices in order to achieve competitive advantage. More recently, Noor (2010) examined the effects of HRM practices on personnel performance of some selected Jordan Public Academic Libraries. Al-Hussein bin Talal Library was used as a case study. Findings revealed that there is a strong relationship between practicing personnel administration functions effectively and improving their performance leading to a higher level of productivity and creativity. Abdalelah S. Saaty and M. Qureshi (2011), examine the human resource practices in the retail sector of the KSA. Based on 355 respondents, the activities of recruitment, selection, training, performance appraisal, compensation and benefits and grievance handling were analyzed on its level of practice. The importance of strategic HRM is widely acknowledged in the relevant literature.

### **Objectives of the Research**

This study is an attempt to analyze the different strategic HR practices adopted by the telecom sector of the KSA. In addition, it is also important to see if there is any difference in SHRM practices adopted by domestic telecom companies and MNC. Operating in different cultural and economic environment is always challenging. What constraints and challenges do the KSA entail for MNCs is also one of the areas of the present study. Adding to the SHRM practices, the innovative practices are also being assessed. This work endeavors to achieve the following objectives:

- To understand and evaluate the extent to which Strategic People Management is practiced by the telecom sector in the KSA
- To understand and examine whether there is any significant difference between the levels of Strategic HRM Practices of an MNC and a domestic company
- To analyze the key constraints attributed to the multinational companies operating in the KSA
- To assess the innovative practices adopted by telecom sector of the KSA.

### **Research Methodology**

The key research issues are threefold: (1) strategic HRM practices adopted by Saudi Arabian telecom companies, (2) difference between practices of an MNC and domestic companies operating in the KSA and (3) examining the constraints that MNCs face operating in the KSA. The research involved an extensive literature review on the area of concern to provide an overview of the KSA and the viable HR practices experienced in this sector.

### **Sample and Sources of Data**

A large questionnaire survey in four telecom companies was carried out between May 2012 and September 2012. The Saudi telecom market is ruled by four major players as per the data of Communications and Information Technology Commission (CITC). Out of 250 questionnaires sent, 121 usable questionnaires were received, representing a response rate of approximately 48 percent. The questions for the survey were drawn from existing literature such as international HRM surveys, and Price Waterhouse Cranfield Project Survey (Brewster and Hegewisch, 1994). The questionnaire consisted of 36 questions related to six SHRM practices. To complement the survey questionnaire, semi-structured interviews were conducted in order to obtain valuable insights into SHRM perspectives and innovation as a part of HR department of telecom companies.

An analysis of the demographic features of the sample suggests that about 53 percent of the respondents are at least 35 years old, while only 10 percent of the respondents were above the age of 40 years. The service tenure depicts that approximately 85 percent of the respondent employees have put in at least two years of service and the remaining 15 percent had just started their career with the respective telecom companies. It is surprising and strange to note that there are no female employees. KSA strictly enforces gender segregation throughout the kingdom, including work places, impeding women's full participation in public life. The segregation is maintained by the law of separate office for male and female employees. As the separate office would add to the cost, none of the telecom companies have employed any female employee. Women's unemployment rate is four times that of men.

## Measures

The dependent variables in this study are the strategic HRM practices. It is measured by the following six practices: Integration of HRM with corporate strategies and management, Recruitment and selection system, Training and development system, Performance appraisal system, Compensation and reward system, motivation and employee participation.

For the purpose of estimating the impact of ownership type on the adoption of strategic HRM practices by telecom companies, the scores on strategic HRM practices of each company are aggregated and converted to a single score with maximum score being 100 percent. The respondents were asked to indicate their agreement on SHR practices followed by their company on a scale of 1 'strongly disagree' to 5 'strongly agree'. A sample item is 'employees in this company are provided opportunity to suggest improvements in the ways things are done'.

The independent variable in this study is ownership type, i.e., multinational or domestic. Ownership type is measured by a set of dummy variables (Domestic companies are coded 1, while MNCs are coded 0). This is consistent with the measurement of ownership type in prior studies (see, for example, David et al. 2002; Law et al. 2003; Wei and Lau, 2008; Ngo et al. 2008).

## Statistical Procedure

To address issues of reliability, Cronbach's Alpha test is conducted for all the sub scales. Reliabilities are checked and they fall between 0.60 and 0.85, which is satisfactory for the study that is exploratory in nature (Nunnally, 1978). The overall Cronbach's alpha of the six scales used in this study is 0.871. The data collected through questionnaire from the respondents were analyzed with the help of SPSS software. In order to gain perspectives into the socio-demographic characteristics of respondents, frequency distribution of responses is calculated while descriptive statistics is employed in determining the extent of strategic HRM practices. A paired sample t-test is another analytical procedure used to compare and find out if any significant difference exists between the levels of strategic HRM practices of domestic companies and multinational telecom companies.

## Findings

### Integration of HRM with Corporate Strategies and Management

In an organization SHRM means accepting and involving the HR function as a strategic partner in the formulation and implementation of the company's strategies through HR activities such as recruiting, selecting, training and rewarding personnel. Table 2 presents the descriptive statistics of the variables. The mean score of the strategic HRM alignment with the overall company's goals and objective is 21.64 out of a possible maximum score of 35, suggesting a moderate extent (61.8 percent) of strategic HRM alignment with the overall objectives. Some empirical evidence from previous research indicates that the full impact of HR practices on organizational performance occurs when HR practices are strategically congruent and consistent with each other (Khatri, 1999).

**Table 1: Descriptive Statistics of SHRM Variables**

SHRM Variables	No. of Items	Mean	Standard Deviation
Strategic HRM Alignment	7	21.64	2.88
Recruitment and Selection System	3	11.42	2.97
Training and Development	4	13.01	2.02
Performance Appraisal System	8	26.03	3.35
Compensation System	7	24.54	3.52
Employee Participation	7	20.17	2.52

**Source: Author's computations using SPSS 17.0**

Overall, only 49 percent of the respondents agreed that human resource department is an integral part of their company's strategic planning process. However, 70 percent of the respondents agreed that employees were viewed as a strategic resource, while 45 percent agreed that their organization's mission statement was well communicated and understood at every level of the organization. It was also seen from the study that in some of the telecom companies SHRM takes a back seat. According to one of the HR quality assurance manager: "HR is involved only at the time of policy formulation and other than this it does administrative task like punching the names of new employee in the tool, getting entry exit visas, getting insurance claims etc. I think it is just a 'dummy' if we talk about strategic planning."

### **Recruitment and Selection System**

Recruitment and selection system lays down the foundation of other HR activities. A rigorous, valid and sophisticated selection system helps in identifying a right candidate with potential to perform. It generates a sense of elitism, creates high expectations of performance, and signals a message of importance of the people to the organization (Pfeffer, 1994). Employee selection system records a mean score of 11.42 (76.13 percent) out of possible maximum score of 15. The result indicates a high fit between the prospective employee's abilities and qualifications and the organization's requirements, while 70 percent used validated employment tests before being hired. However, 60 percent of the respondents agreed that there is a structured interview process for everybody.

### **Training and Development System**

The training and development has a mean score of 13.01 (67.5 percent) out of a possible maximum score of 20 depicting a moderate level of training and development programs adopted by telecom companies. The findings indicate a broadly high use of practices such as induction programs in almost all the telecom companies in the study. It is disappointing to note that only 32 percent of the employees agreed that the training programs are linked to the requirement and match company's objectives and only 45 percent said that their manager evaluates the effectiveness of the training.

### **Performance Appraisal System**

Performance management, if implemented properly, should link together individual goals, departmental purpose and organizational objectives. The mean score of performance appraisal system is 26.03 (65 percent) out of a possible maximum score of 40. Although the overall result of performance appraisal is moderate but

if individual variable is observed, some deep findings come out. For example, only 21 percent of employees agreed that the superior discusses the performance with subordinates. From the study the researcher finds out that 46 (38 percent) of the respondents were of the opinion that performance appraisal is not measured on the objective quantifiable results. It is thus clear that the telecom industry of the KSA really needs to look at the performance appraisal aspect as the key factor of employee retention, which, if ignored, can create a heavy attrition rate.

### **Compensation System**

Firms can affect the motivation of employees in several ways. They can use performance-based compensation to provide rewards to employees for achieving the specific goals and objectives of the firm. The findings suggest a moderate fit between perceived compensation system in the telecom companies and the overall industry policy on the compensation of workers. It depicts a good picture because most of the employees are expatriates and are paid higher than in their home country. Also most of the employees are satisfied with the compensation, as the cost of living in the KSA is comparatively low. Most of the expat professionals working here remit money to their respective countries.

### **Employee Participation and Motivation**

Telecom companies in the KSA have adopted numerous practices meant to aid the handling of grievances among the stakeholders. Various companies have enacted procedures, which they perceive as viable and effective. One universal approach employed by most human resource managers incorporate a fair hearing to the claiming parties and derivation of amicable solutions.

The mean scores of employee participation and motivation are found to be 20.17 (57.6 percent) out of possible maximum scores of 35, which is least among the scales. The result indicates a low level of effective employee participation within the telecom industry, as only 56 percent agreed that employees are given an opportunity to suggest any improvements. The findings reveal that 70 percent of the respondent experience that there is a practice of discrimination based on nationality, depicting a terrible picture of discrimination at work place.

### **The Strategic Integration of HRM Practices across Different Ownership Forms**

According to Law et al. (2003), ownership types not only encompass the influences of variables external and internal to the firm, but they also represent interacting systems of factors that are relevant to the way management practices operate. Multinational firms tend to transfer their management system from their home country to the local subsidiaries (Lau & Ngo, 2001). In testing whether a significant difference exists between the strategic HRM practices adopted by domestic and multinational companies, paired t-test is adopted.

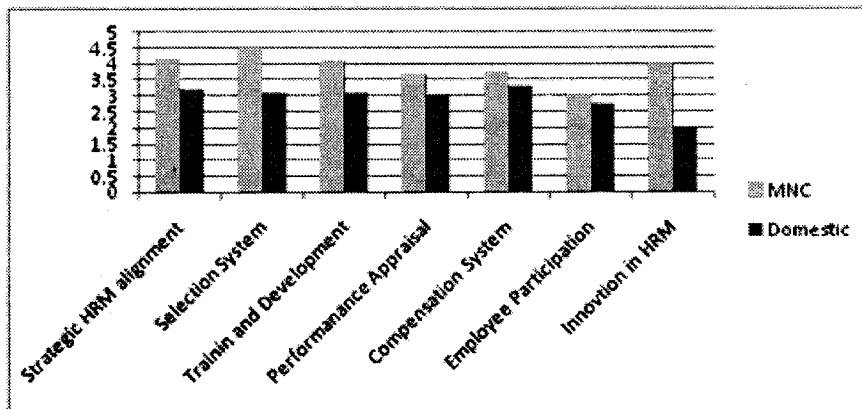
Table 2: Paired sample t-test results

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Deviation	Std. Error Mean	95 percent Confidence Interval of the Difference				
				Lower	Upper			
MNC – Domestic	.64686	.56009	.09467	.4544	.8392	6.833	34	.000

Source: Author's Computations using SPSS 17.0

As shown in Table 3, there exists a significant difference between strategic human resource management alignment with company's goals and objectives of domestic company and multinational telecom companies. Similar results hold for recruitment and selection system, training and development system, performance appraisal, and compensation system and employee participation among different type of ownership. As compared to domestic companies the multinational telecom companies adopted more SHRM activities. Since human resource practices are a long-term investment, companies can enjoy the benefits of a well-developed HR system in the long run.

Figure 1: SHRM activities in domestic and multinational telecom companies



The results in Figure 1 reflect to some degree the strong SHRM alignment at the MNC average score is 4.04 (80 percent), whereas the domestic telecom company scores only 3.18 (63 percent). This strategic integration was developed to measure the degree to which HRM polices are integrated into a more broadly based strategic approach to management (Roche, 1999). Looking at other HR practices in figure clearly depicts that MNCs score higher points on all variables. This provides some evidence to show that an organization with a high strategic HR focus was also more inclined to adopt an objective selection system as well as training and development practice and be more innovative than the domestic company with a low strategic HR focus.

HR policies and practices in the KSA vary according to ownership (private or public), and type of employees (Saudi or foreign). The preferred characteristics of a Saudi employee are: lifetime employment; seniority wages; and social cohesiveness rather than competence. The dualistic nature of the labor market implies that the Saudi private sector applies two sets of HRM practices: one for Saudis and another for foreign workers.



To sum up, there is a certain amount of disparity and significant difference in SHRM practices among domestic and multinational telecom companies operating in the KSA.

### **Constraints on the Multinational Companies Operating in the KSA**

As the consequence of opening of the Saudi telecommunication market to both local and international private sector operators, the number of foreign-invested enterprises has increased substantially in the KSA over the past two decades. Now, foreign investors can own up to 70 percent stake in a locally established fixed-line joint stock company and up to 60 percent in a mobile phone company. In the KSA, five key factors have shaped and continue to shape SHRM policies and practices. These are: the structure of the Saudi economy, the political environment, and structure of the labor market, national HRD strategy and national culture (Budhwar and Debrah, 2001). To improve their market competitiveness and to attract and retain talent, the telecom companies have started to invest more in HR and to develop their HR systems.

The labor market in the KSA has depended heavily on expatriates or foreign workers. The challenges faced by foreign firms are included but are limited to the competitive threats from other multinationals, fast development of local industries, strong local subsidy/support to the local industries, gradual Saudization/nationalization of work force, scarcity of qualified local manpower, language barrier/communication problem, and local resistance to change, for they extend to cultural barriers. The study brought to light the following major constraints faced by multinational companies which are to operate in the KSA:

- Cultural barrier: The Islamic emphasis on working for the actualization of Islamic ideals at workplace provides a challenge for MNCs to modify their human resource policies to bring them in line with the general norms in the kingdom.
- Return of expatriates: Premature return of expatriates due to cultural shock and the poor retention of returned expatriates due to failed assignment.
- Bureaucratic constraints: Bureaucratic constraints to business operations are rampant in the Middle East. Constraints caused by local bureaucracy result in unnecessary delays and costs to multinational business operations in the host country.
- Saudization of workforce: The Saudi government has promoted employment of Saudi nationals, as part of its strategic goal; Saudization (Saudi for Saudis) is the replacement of the expatriate workforce with a locally qualified and skilled workforce (job localization).
- Job expectations of locals: The native Arabians are more inclined to work in public sector and look for jobs that pay higher salaries.
- Language barriers: Language barriers cause common communication problem among diverse workforce.

In terms of the diffusion of strategic HR practices, the findings indicate a high usage of practices such as employee induction program and specific company training, whereas less than one-third of firms surveyed used validated employment tests, had a skill or knowledge-based pay system, paid a premium wage or administered employee attitude surveys on a regular basis. Excluding a few corporations, most of the telecom companies in the KSA, including many large organizations, often treat HR management akin to a logistic function. Typically, HR departments in the organizations are assigned the functions of hiring and firing of employees, maintaining their database, handling periodic renewal of personal documents (passports, residence permits, work permits, driving license, medical insurance, etc.); preparation of payrolls, calculation and

disbursement of allowances; maintenance of personal files; issuing notices to employees, filing of regulatory returns and in some cases, ensuring their safety and security.

The results of the study show that the telecom sector of the KSA needs more qualified and experienced employees. The current Saudization policy is that every company has to employ a minimum of 27 percent to a maximum of 37 percent employees from the KSA. This requires a huge number of highly-qualified Saudi employees.

### **Innovation in Practice**

Finally, and interesting in this area, the findings indicate few innovative practices, of particular significance. These were practices which fostered employee communication and involvement such as the provision of daily emails about the plans and day-to-day information about strategic leadership which are to send to each employee across the company.

### **Conclusion**

Despite its unique challenges, the KSA remains an exciting opportunity for the MNCs. The researcher confidently concludes that this study has practical and policy implications for the companies in the telecom sector. The finding present that companies can improve their performance by integrating human resource practices with business goals. The present condition reflects that most of the companies club the HR management function both with general administration or public relations and in some cases even with the accounts and finance function, which reflect nothing but a total misunderstanding and misgivings about the importance of human capital. The perception that any senior executive in the organization can handle this role, further demonstrates this lack of understanding vis-à-vis human resources. It was also seen that the dualistic nature of HR practices in the Saudi leads to employee dissatisfaction adding to his frustration. The study, therefore, recommends multinational firms to sustain or enhance their competitive position and cross-border profitability; their managers and employees need intensive cross-cultural training that includes learning the host-country's culture in its totality, and most important be transparent in implementing its HR practices and policies. In the KSA, Islamic call and guidance centers exist in all major cities like Riyadh, Jeddah, Al-Khobar, Dammam and Jubail, whose services are available free of charge to any individual, institution or company. As human resource forms the most important intangible asset, it must be developed, integrated and linked with the overall business strategy in order to be in the race and get an edge in industry.

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