

# Analyzing the Impact of AMO-based HR Practices on Performance of Employees in the Banking Sector of the Kingdom of Bahrain

**Dr Habil Slade Ogalo**

Assistant Professor-Faculty of Business Studies-  
Arab Open University-  
Bahraindrhabilslade@aou.org.bh

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**Abstract**

Although it has become a confirmed empirical evidence that HR practices are a significant driver of improved performance, the functionality of HR practices is context dependent as some HR practices had been found in some extant studies to have no impact on performance in some contexts. To enrich the existing literature and expand the current scope of knowledge, this study investigates the impact of AMO-based HR practices (i.e., training & development, compensation, and employee involvement) on the performance of employees in the banking sector of Bahrain. Data were collected from 702 employees of ten major bank employees and analyzed via the partial least squares method (PLS) algorithm and bootstrapping techniques. The overall results indicate that training & development and employee involvement have significant and positive effect on employee performance. Nevertheless, compensation has a non-significant effect on employee performance. This indicates that not in all circumstances that HR practices can significantly predict performance. The circumstances and environment, as postulated by contingency theory, could affect the relationship between HR practices and performance. Hence, future research should endeavor to investigate some situational factors or environmental factors in the HR practices-performance connection.

**Keywords:** HR practices, employee performance, compensation, training & development, employee involvement.

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## 1. Introduction

Leveraging the findings of many HR studies (see Jibrin-Bida, Abdul-Majid, & Ismail, 2017; Ismail, Abdul Majid, & Joarder, 2017; Koshy & Suguna, 2014), human resource practices (HR practices) could be said to be a significant determinant of enhanced employee performance, given that the literature identified that performance has been viewed through the lens of human resource practices and policies (Khalid, Ahmed, Tundikbayeva, & Ahmed, 2019). However, it could be argued that HR practices cannot always predict enhanced performance, given that some

studies have found a non-significant connection between some HR practices and performance (see Guest, Conway & Sheehan, 2003; Ismail et al., 2018). This does not debunk the fact that HR and its management form an indispensable part of the whole of competitive advantage (Amarakoon, Weerawardena, & Verreynne, 2016; Boxall & Purcell, 2003; Delery & Roumpi, 2017). But a fact remains valid. The fact is that not all HR practices have significant impact on performance in some contexts (see Guest, Conway & Sheehan, 2003; Ismail et al., 2018).

Moreover, the Ability-Motivation-Opportunity (AMO) model postulates that performance of the firm can be expedited through three factors which are ability, motivation and opportunity. AMO model highlights that empowered and motivated employee with boosted KSAs would remain in the organization and record higher performance which consequently enhance higher performance (Appelbaum & Kamal, 2000; Boxall & Macky, 2009; Browning, 2006; Gyensare & Asare, 2012). The first factor of AMO model, which is ability, can be achieved through training and development (Jiang, Lepak, Hu, & Baer, 2012). The HR practices such as compensation and employee involvement constitute what can be used to motivate, empower employees and give them opportunity. Also, employees with knowledge and competencies are the key assets in assisting firms to survive and sustain their competitive advantage (see Fu, 2013; Ismail et al., 2015) Performance is enhanced through HR practices that can build-up employee capability, commitment and productivity (Posthuma et al., 2013).

Based on the explication above, this research aims to test the presupposition of AMO theory by examining the effect of training & development, compensation, and employee involvement on employee performance in the banking sector in The Kingdom of Bahrain.

## 2. Survey of the Literature

Employee performance that will bring up innovation and creativity is critical for businesses (Channa, Shah & Ghumro, 2019; Ahmed et al., 2018). The existing literature (see Fu, 2013; Ismail et al., 2015a; Posthuma et al., 2013) has recognized that employee performance can be boosted through HR practices that can build-up employee capability, commitment and productivity. Employee with knowledge and

competencies are the key assets in assisting firms to survive and sustain their competitive advantage. The HR practices like training and development, compensation, and employee involvement have been tested by numerous studies (e.g., Ismail, Abdul-Majid & Joarder, 2017; Posthuma et al., 2013) and found to have significant positive effects on performance.

Going by the findings of the studies such as Joarder, Sharif, and Ahmed (2011), training and development are a formidable HR practice that enhances the skills, attitude and knowledge of the employees in the organization to accomplish some specific work performances as well as organizational goals (Edralin, 2004). In addition, the findings of numerous studies (e.g., Nwanzu & Okolo, 2017; Hassan, 2016; Falola, Osibanjo, & Ojo, 2014; Tabiu, Pangil, & Othman, 2016 etc.) have indicated that training and development have positive effect on employee performance. This implies the fact that training and development are an indispensable practice that should be adopted in any organization, given that employees with improved skills and competency are instrumental to the accomplishment of organizational objective, execution of organizational strategy and planning (see Ismail, Abdul-Halim, & Joarder, 2015a; Ismail, Abdul-Halim, & Joarder, 2015b; Ismail, Abdul Majid, & Joarder, 2017; Ismail, Abdul Majid, & Joarder, 2018).

Likewise, compensation, which refers to all kind of fiscal returns and physical benefits that an employee received as part of his/her contract (Alzyoud & Odhiabo, 2019; Odunlami & Matthew, 2014), is an essential HR practice too. Survey of the existing literature (see Tabiu, Pangil, & Othman, 2016; Hassan, 2016; Subekti & Setyadi, 2016) has signified that compensation has significant positive effect on employee performance. In addition, the presupposition of

social exchange theory (SET) confirm the positive effect of adequate compensation. SET posits that the reciprocity and good gesture between two parties govern the entire relationship (Blau, 1964). When there is a good gesture from one party (employer through HR practices), there would be a similar good gesture in return (employee through performance).

Besides, employee involvement, which refers to the process through which information is exchanged in an organization (Ahmed, AlZgool & Shah, 2019; Posthuma et al., 2013), is a critical HR practice which impact organizational performance (Gittel, Seidner, & Wimbush,

2010). The extant research findings (see Hassan, 2016; Ali & Rizwan, 2013; Nadarasa, 2013) have indicated the positive effect employee involvement has on employee performance. For example, Hassan (2016), who investigated the impact of employee involvement on performance in the Textile industry of Pakistan, found that employee involvement has a positive impact on performance.

Considering the explications above, this research proposes the following hypothesis:

Employee performance would get enhanced through training and development, compensation, and employee involvement.

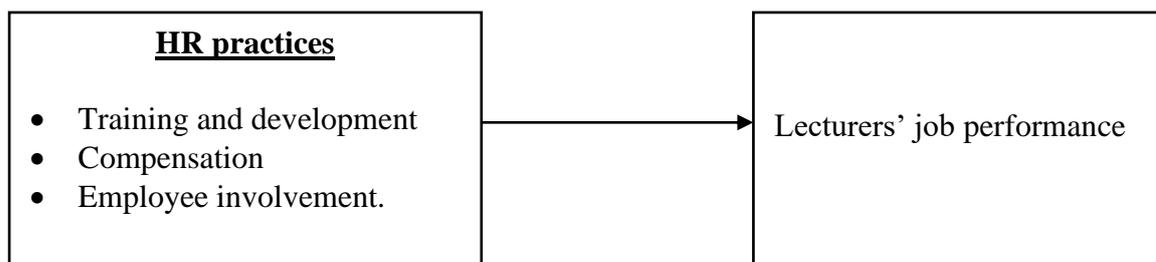


Figure 1: Research framework

### 3. Methodology

Having adopted cross-sectional survey approach, data were obtained from ten major banks in Bahrain and analyzed. Out of 702 questionnaires distributed amongst non-managerial employees, only 546 questionnaires were returned, but only 539 questionnaires were usable for data analysis. This represents a valid response rate of 74.7 per cent, and it is adequate and acceptable response rate. The analysis of the data a two-stage approach: measurement model and structural model (Hair, Ringle, & Sarstedt, 2011). The items of employee performance were adapted from Motowil and Van-

Scotter (1994), while the instruments of HR practices were adapted from Demo, Neiva, Nunes, and Rozzett (2012). All the items were scaled with 5-Likert scale. Moreover, the respondents of the current study have different backgrounds in terms of age, gender, education, and working experience, signifying that the data used in the study were from the respondents of different demographic backgrounds, and thus enriching generalizability of the result of the study.

### 4. Results

#### 4.1 Measurement and Structural Models' Evaluation

<b>Table 1: Indicator &amp; internal consistency reliability and convergent validity</b>					
<b>Constructs</b>	<b>Items</b>	<b>Loadings</b>	<b>CA</b>	<b>CR</b>	<b>AVE</b>
Compensation	CMP1	0.849	0.92	0.94	0.759
	CMP2_1	0.888			
	CMP3_1	0.905			
	CMP4_1	0.856			
	CMP5_1	0.857			
Lecturers' job performance	CP11_1	0.692	0.917	0.929	0.504
	CP12_1	0.716			
	CP13_1	0.808			
	CP14	0.812			
	CP15_1	0.79			
	CP16	0.734			
	CP2_1	0.638			
	CP3_1	0.666			
	CP4_1	0.657			
	CP5	0.651			
	CP6_1	0.681			
	CP8_1	0.653			
	CP9_1	0.7			
	EI1	0.781	0.959	0.964	0.69
	Employee involvement	EI10_1	0.826		
EI11_1		0.841			
EI12_1		0.819			
EI2_1		0.777			
EI3_1		0.807			
EI4_1		0.853			
EI5_1		0.819			
EI6_1		0.85			
EI7_1		0.849			
EI8_1	0.878				
EI9_1	0.858				
Training & development	TD1	0.68	0.828	0.874	0.537

	TD2	0.667			
	TD3_1	0.753			
	TD4	0.741			
	TD5_1	0.796			
	TD6_1	0.752			
Note: AVE=Average Variance Extracted; CR=Composite Reliability; CA=Cronbach Alpha.					

Measurement model evaluation involves assessment of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity of the study's variables. The result presented in Figure 2 and Table 1 indicates that the outer loadings of individual items, which range between 0.638 and 0.905, show higher value on their respective constructs, and thus signifying sufficient levels of indicator reliability (Hair, Hult, Ringle, & Sarstedt, 2017). However, 3 items from employee performance fell below the threshold value of 0.5 (Hair et al., 2011), did not fulfil the required levels of indicator reliability, and were all removed from the subsequent analysis, because an indicator whose outer loading falls below the threshold value of 0.5 should be removed to avoid distortion of result at structural model estimation stage.

The internal consistency reliability evaluation result as presented in Table 1 indicates that all the constructs of the study have high levels of internal consistency reliability, as the composite reliability and Cronbach's alpha values of all the constructs are well above the threshold values of 0.7 and 0.6 respectively. This is because, according to Hair et al. (2017), composite reliability should be higher than 0.70, but composite reliability values

below 0.60 indicate a lack of internal consistency reliability. Also, the minimum threshold for the value of Cronbach's Alpha is put at 0.6 by Sekaran (2003). Moreover, convergent validity assessment is based on Average Variance Extracted (AVE) values which should be 0.5 or above (Hair et al., 2017). The result in Table 1 indicates that AVE values of the study's constructs ranged between 0.504 and 0.759, and thus well above the minimum requirements of 0.5 (Hair et al., 2011). This informs that all the constructs of the study have the highest levels of convergent validity.

Heterotrait-monotrait ratio (HTMT) of the correlations was adopted in this study to assess discriminant validity. HTMT is the ratio of the between-trait correlations to the within-trait correlations (Hair et al., 2017). The result in Table 2 confirms the discriminant validity of this study's constructs, as the HTMT values for all pairs of constructs in a matrix fell below the threshold value of 0.90. In sum, having confirmed the content validity, convergent validity, and discriminant validity of the constructs of this research, it can then be claimed that the construct validity and reliability have been established in this study.

	CMP	CP_	EI	TD
CMP				
CP_	0.408			
EI	0.711	0.446		
TD	0.622	0.556	0.566	

Note: CMP=Compensation; CP=Lecturers' job performance; TD=Training and Development;EI=Employee Involvement.

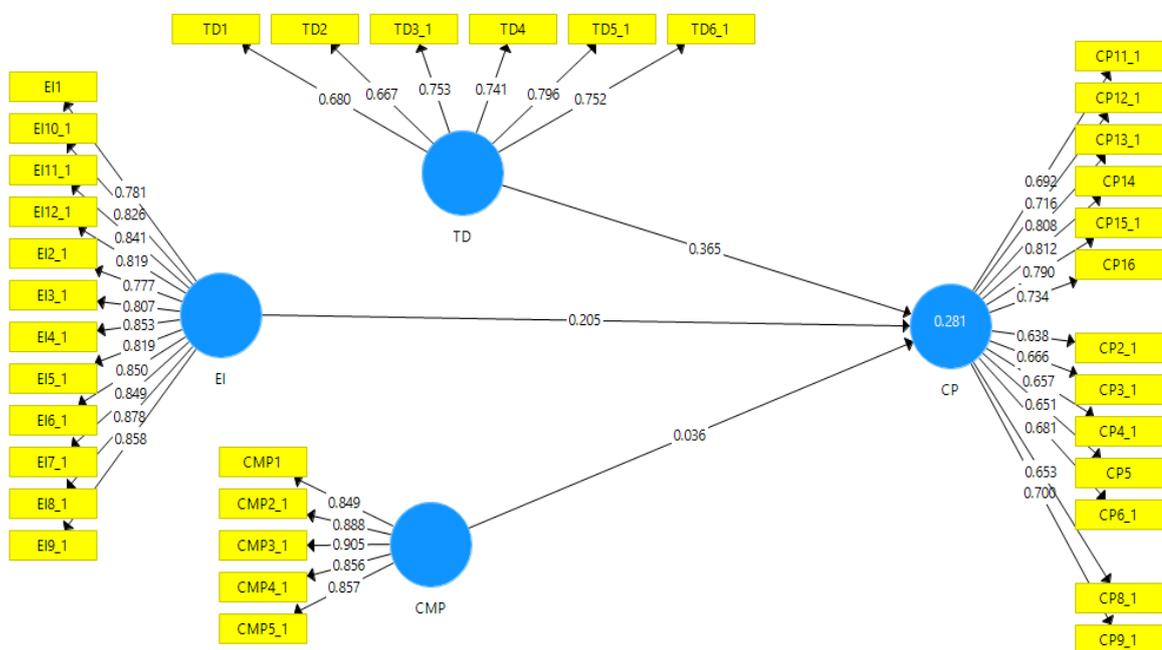


Figure 2: Measurement Model Evaluation Result

Furthermore, R square value of 0.281 (See Figure 2) signifies that, in the model, training & development, compensation, and employee involvement explain 28% of the variance in employee performance. The result ( $\beta = 0.365$ ,  $t=7.627$ ,  $p < 0.001$ ;  $\beta = 0.205$ ,  $t=4.661$ ,  $p < 0.01$ ), which was contained in Table 3, Figure 2, and Figure 3, indicates positive effects of training & development and employee involvement on employee performance. Nevertheless, compensation has no significant effect on employee performance ( $\beta = 0.036$ ,  $t = 0.663$ ,  $p > 0.05$ ). in addition, employee

performance is explained by training & development and employee involvement with effect size ( $f^2$ ) of 0.120 and 0.030 respectively, indicating that training & development and employee involvement have small effect size on employee performance respectively, but compensation, with effect size ( $f^2$ ) of 0.001, has no effect on employee performance.

HYP.	Beta	STDEV	T-STAT	Confidence Interval		P Values	Decision
				2.50%	97.50%		
CMP -> CP_	0.036	0.055	0.663	-0.072	0.146	0.507	Not Supported
EI -> CP_	0.205	0.044	4.661	0.121	0.293	0	Supported
TD -> CP_	0.365	0.048	7.627	0.267	0.46	0	Supported

Constructs	F <sup>2</sup>	Effect Size
CMP	0.001	No effect
EI	0.03	Small effect
TD	0.12	Small effect

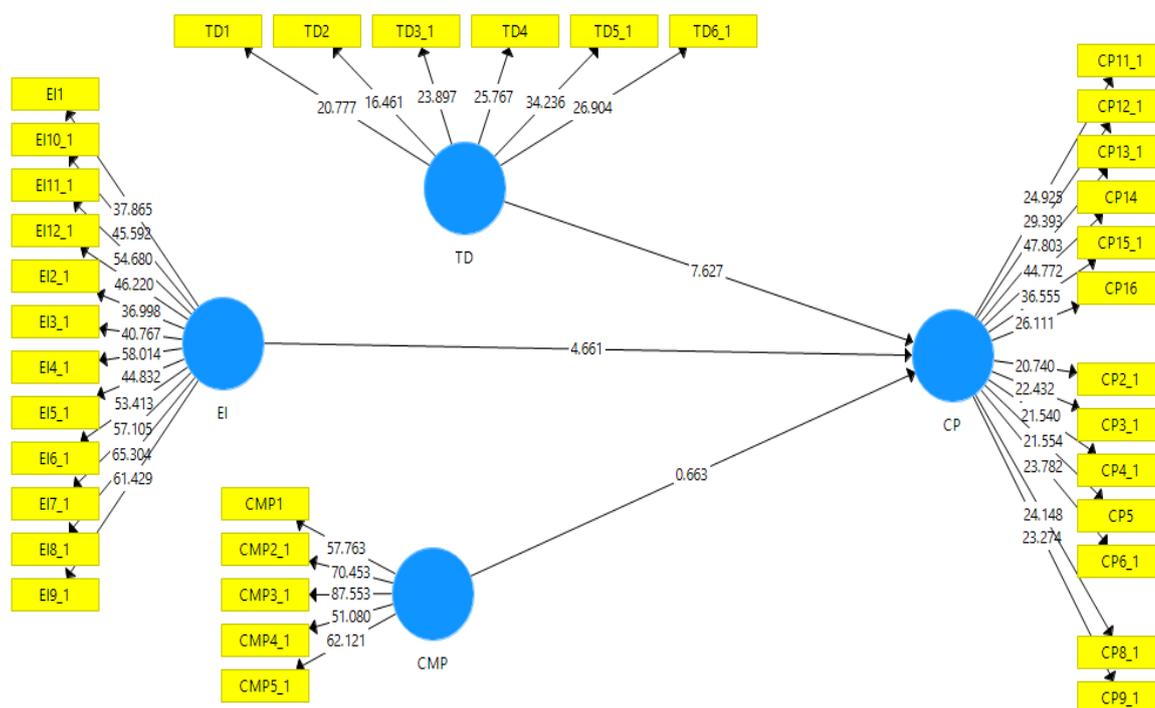


Figure 3: Structural Model Evaluation Result.

In summary, the results of the study indicate that training & development and employee involvement have significant and positive effect on employee performance. This finding solidifies the findings of the extant studies

like Ismail, Abdul Majid, Jibrin-Bida and Joarder (2019); Hassan (2016); etc. This implication of this finding is that the performance of the employees could be enhanced with training and development in

the organization, because training and development are always directed at improving employees' knowledge, skills, and abilities which facilitate accomplishment of the present and future tasks. Additionally, the findings of the current research imply that if the performance of the organization is to be accomplished, there is a need for employee involvement in the organizational strategic planning and the strategies designed to accomplish the organizational goals and objectives. Workers should be equipped with financial and strategic information of the firm to improve and enrich workers' job-related knowledge.

Nevertheless, compensation is found to have a non-significant effect on employee performance. While numerous studies have highlighted the positive effect of compensation on performance, the findings of this study indicate otherwise. This could be due to the fact that the situation and the environment or context of the organization could determine the functionality of compensation as a HR practice. Likewise, the effectiveness of other HR practices could also be determined by the context and situation of the organizations. The circumstances and environment, as postulated by contingency theory, could affect the relationship between HR practices and performance. Hence, future research should endeavor to investigate some situational factors or environmental factors in the HR practices-performance connection.

## 5. Conclusion

Overall, AMO-based HR practices are a significant driver of enhanced employee performance. This assertion is supported by the findings of this study and many other HR studies. However, it could be asserted that the

effect of HR practices on performance can be affected by the situation, context and environment of the organizations. This may be the reason Teo, Le Clerc, and Galang (2011) posited that the environment within which a firm operates has influence on firm's strategies and policies, and it can consequently impact the application of HR practices and its attendant effect on performance. The management and CEOs of the organizations are therefore exhorted to put in place AMO-based HR practices, but it should be in consideration of the environment of their organizations. Also, future researchers are urged to look into this area too, because this will offer a deeper perspective on what can represent generalizable findings and commonly held views in HRM research field, and thus enriching the theories (Goldsby, Knemeyer, Miller, & Wallenburg, 2013).

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