



# STRATEGIC RESOURCING : COMPETITIVE PEOPLE ADVANTAGE FOR BANKS IN CHANGING PARADIGMS

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## **Introduction :**

After five years of recovery strategies following a three-decade long civil conflict in the country, Sri Lanka is now at a crossroads. Sri Lankan economy had entered an accelerated growth path. Striving to change economic paradigms - a transition to an upper-middle income country by achieving a Rs. 100 Bn economy with USD 4000 per capita income by 2016. As a key strategic partner of the Government, the Sri Lankan banking sector which holds over 55% of the financial sector assets of the country, is destined to play a vital role in this scenario. Banking industry has to align its own growth and development strategies with that of the country's strategic goals, to help achieve this historic, economic and structural development goal. In the process, banking sector would face many local, as well as global challenges, which will be discussed in detail in this article. In order to face this major challenge, 'competitive people advantage' is a key strategic competence the banking industry should possess. This article will discuss what challenges the local banking sector has to face when Sri Lanka is changing its economic paradigms - transition to an upper middle income country by 2016, and how 'strategic resourcing' will contribute to the achievement of competitive people advantage to meet the above challenges.

## **What is strategic resourcing ?**

Armstrong, M. (2012) defines 'strategic resourcing' as a key component of strategic human resource management (Strategic HRM) that is, matching human resources to the strategic and operational requirements of the organization and ensuring the full utilization of those resources. He argues, that it is concerned not only with obtaining and keeping the number and quality of staff required, but also with selecting and promoting people who 'fit' the culture and the strategic requirements of the organization. That is, strategic resourcing aims to ensure that the organization has the 'right people it needs at the right places' to achieve its business goals. Further, like Strategic HRM, strategic resourcing is essentially about the integration of business and employee resourcing strategies, so that the latter contributes to the achievement of the former. Employee Resourcing is no doubt a key component of the Human Resource Management (HRM) function. However, with the recognition of Strategic HRM, or with the



increasing integration of HRM in to organization strategy, it is necessary for both HR policies and practices to become more proactive in nature in order to meet the organization's strategic goals. Therefore, it is important first to find out what Strategic HRM is, and why Strategic HRM is important for banks in changing paradigms ?

## What is Strategic HRM ?

Foreign and local scholars have given many interpretations to this vital concept, Strategic HRM. Boxwell (1996) considers it as the interface between HRM and Strategic Management, and Schuler and Jackson (2007) argue that Strategic HRM is fundamentally about 'systematically linking people with the firm'. According to Dessler (2005), it is 'formulating and executing HR systems, HR policies and activities, that produce the employee competencies and behaviours the company needs to achieve its strategic aims'. Armstrong, (2012) describes Strategic HRM as an approach to the development and implementation of HR strategies that are integrated with business strategies, and support their achievement. Viewing from various definitions of foreign scholars, a Sri Lankan scholar, Opatha, H.H.D.N.P. (2012) argues, Strategic HRM is about "making decisions which have a major and long-term effect on the employment and development of employees, employee and labour relationships". Further he states, "It is about linking HRM functions with business needs of the organization, so as to achieve a competitive advantage...It is about formulation and implementation of HR systems which generate appropriate knowledge, skills and attitudes, appropriate behaviours such as presence, punctuality, managerial activities etc. and appropriate (expected) results (quantity and quality of work) of employees at all levels, so that the organization will be able to achieve its vision, mission and strategic goals". Opatha (2012) states that the purpose of Strategic HRM is to generate or enhance competitive advantage or support achievement of strategic business needs or goals. The above scholarly interpretations clearly highlight the importance and the role of Strategic HRM in an organization. If we summarize these scholarly definitions, 'Strategic HRM is conceptual; it is a general notion of how integration of how integration or 'fit' between HR and business strategies is achieved, the benefits of taking a longer-term view of where HR should be going and how to get there, and how coherent and mutually supporting HR strategies should be developed and implemented. Most importantly, Strategic HRM is also about how members of the HR function should adopt a strategic approach on a day-to-day basis. In other words, that they operate as part of the management team, ensure that HR activities support the achievement of business strategies on a continuous basis, and add value to the organization (Armstrong, 2012).

## Why is Strategic HRM important to banks ?

According to Opatha, H.H.D.N.P. (2012), Strategic HRM has four features :

- i) a broad approach to managing people at work, based on a philosophy of HR;
- ii) a major source of competitive advantage, which links to competitive advantage of the organization significantly;



- iii) its policies/functions are coherent within themselves and with other functional fields of organizational management, and
- iv) is fully integrated with the strategy and strategic needs of the organization.

The first feature out of the above four is very important for the discussion on the above topic. The HR philosophy highlights that, people are a valued and very important asset of a company. Further, its efficient and effective management contributes significantly to organizational success and thus will be a source of competitive advantage to the organization concerned. Employees are a critical investment in an organization's current and future performance. When compared with other resources, 'employees' stand out well, as it is the most important resource available for an organization to achieve its strategic goals. Therefore, Strategic HRM is very important for banks to achieve a 'competitive people advantage' through 'strategic resourcing' in changing paradigms.

## **Changing paradigms of the Sri Lankan economy**

After the three-decade long civil conflict in the country, Sri Lanka is now focusing on historical strategic and structural development goals. Government's Strategic Vision for Sri Lanka is spelt out in the Development Policy Framework, 'Mahinda Chintana 2010 - Vision for the Future'. Three clear strategic goals were highlighted in the above Policy Framework :

- i) a Rs. 100 Bn economy, with doubling of per capita income up to USD 4,000 by year 2016 through sustained high investments;
- ii) shifting the structure of the economy and
- iii) ensuring inclusive growth, improvements in living standards of people and social inclusion.

According to the World Bank Report 2014 - Sri Lanka , the 'World Bank Country Partnership Strategic Objectives' are aligned to support Sri Lanka achieve the above development goals. As clearly identified by the World Bank, facilitating sustained private and public investment in the country is a vital component in the process of achieving Sri Lanka's above first strategic goal , 'a Rs. 100 Bn economy with doubling its per capita income up to USD 4000 by 2016'. The banking industry in the country has a major role to play in this regard and will be discussed in detailed later in the article. The second strategic goal, 'shifting the structure of the economy', is more knowledge-based, globally integrated and competitive, environmentally friendly, internally integrated and increasingly urban. To support this task, Sri Lanka has a well-educated population and a wealth of environmental assets. Challenges involved in the strategy will be providing systems and incentives to upgrade the skills of the labour force, to be compatible with a knowledge economy, establishment of economic policies that encourage competitiveness, stronger efforts on environmental sustainability and adaptation to climate



change and modernizing infrastructure systems to achieve the above strategic goal. The third strategic goal, 'ensuring inclusive growth, upgrading living standards of people from rural and urban sectors, and social inclusion' is a crucial development goal and the bankers too have a vital role to play in this target .

A stabilized banking industry is a major strength to a country in achieving its national goals. Sri Lanka is fortunate to have a stable financial industry as a key strategic partner at this juncture, to gain support in achieving the above strategic goals. The financial industry's large asset base, credit growth, international and local trade transactions, and many valuable financial services extended to the general public are few key areas where the banks are extending their support in this regard. However, in the process of changing the economic status to the above expected levels, the country faces many challenges, which affect the achievement of these key targets. It is pertinent to highlight few of these challenges as follows.

## **Challenges to be faced by the country with changing economic paradigms**

As Sri Lanka work towards its above mentioned major strategic goals, new challenges are emerging. For example, fast-growing aging population would demand a sizable amount of key resources of the country. Increased healthcare facilities, social welfare benefits, special transport facilities, access to public services would be the key areas the government has to address. Government would have to create more employment generation avenues to create more jobs to increase the income levels of the people. Further, it will need to improve the quality of services and quality of life of people by enhancing quality education facilities from primary to tertiary level, increase quality infrastructure development facilities throughout the country etc. The need to equitably share the benefits across all segments of the society and to give priority to social inclusion would be some more new challenges the government would have to face with the changing paradigms of the economy. In addition, Sri Lanka would have to face the challenges of ensuring that the growth is inclusive, realigning public spending and policy with the needs of a middle income country, ensuring appropriate resource allocation for the various tiers of government, and enhancing the role of the private sector, including provision of appropriate incentives for increasing productivity and exports, in order to achieve its above strategic development goals.

## **Performance of the local banking industry in the recent past**

As stated above, local banking industry is a key strategic partners of the Government in the socio-economic development of the country. The banking industry has to play its role through an aligned strategy, delivering a holistic and sustainable performance, balancing all stakeholder needs and facing the ever increasing challenges. It is therefore important to take a quick glance at the recent past performance of the local banking industry. It had enjoyed, together with the country performance, a stance of a successive growth rate of 8% in year



2010 and 2011. This is following the end of a 30 year-long civil conflict in the country and also facing a global financial crisis in 2007. However, as a results of the emerging markets and the depressed global economic conditions, the country's growth rate slowed down. It showed a moderate growth rate of 7.2% in year 2012, which had no doubt impacted on the financial sector growth during the year. In addition, as a result of the implementation of monetary and fiscal policy measures in 2012, financial sector too showed a moderate growth during the year. Further, the private sector year-on-year credit growth slowed down to 5% in 2013, compared to that of 20% at the end of 2012. Public sector credit growth too was low during this period. Therefore, this impacted on the overall credit growth rate of the financial sector, recording a low 8.8% overall loan growth for 2013. However, due to increased investments the financial sector showed an asset growth of 16.6% in year 2013. Further, the prime lending rates of banks declined in response to monetary policy relaxing during the period. This impacted on the earnings of the banking sector due to declining net interest margins during 2013.

However, the GDP growth rate was improving during the latter part of 2013, as the economy gathered momentum and the global economic conditions improved. Significantly infrastructure development has been achieved and the domestic trade too increased. According to the World Economic Outlook 2013, Sri Lanka has the highest GDP growth rate in South Asia, also the country ranks the best in "South Asia in doing Business Index" with an overall ranking of 85. Sri Lanka's political stability, strategic location, friendly literate people have increased the country's growth opportunities as a regional hub. The exchange rates stabilized during latter part of 2013 and the interest rates too were on a gradually declining trend.

## **Performance of the global banking sector**

The recent financial crisis in 2007 badly impacted on the asset and profitability growth of the global banking sector. However, this negative effect of the crisis gradually subsided and the assets and profitability started to improve over time. The global banking industry made a strong comeback in 2012, after facing the worst of the recent financial crisis. However it is felt, yet the progress of the global financial industry continues to be slow, as a result of the ongoing Eurozone crisis and concerns of the sluggish growth in the United States. Emerging economies such as China and Latin America are expected to transform the global banking industry in the future. It is noticed that the regulations continue to be strong and create an ever-tightening regulatory environment for the banks.

It is important to highlight the global banking industry performance in the recent past, as the global banking environment very strongly influences the local banking environment. It is noted that the assets of the top 1000 banks in the world grew by 4.9% in year 2012, recording a growth across all regions during the period. However, Europe was an exception, where the asset growth was down by 0.5% as a result of the concerns about the Eurozone debt. Rising from an emerging economy, the Latin America region recorded a remarkable growth of about 20.5% in assets in 2012, as compared to that of other global regions. Rising consumption and Financial inclusion were the key areas that contributed to the resurgence of the economies



of this region. Further, pre-tax profitability of the global banking sector has been growing at a moderate pace of 4.6% over the period 2011 to 2012. The growth was mainly due to the progress of the emerging economies, as the profitability of European banks has continued to be negatively impacted as a result of the Eurozone crisis.

## **Future trends of the global banking sector**

It is vital for the local banking industry to have a close look on the future trends of the global banking sector. Looking at the above mentioned recent past performances of the global banking industry and the overall trends of the global banks, their top priorities of future strategies include : regulatory compliance; improving asset quality; enhancing customer centricity; focusing on digital convergence; and tackling competition from the non-banking institutions. Further, it is noticed, many key technology trends are emerging in the global banking arena as follows:

- i) Enhance Big Data capability to enhance customer centricity
- ii) Build capabilities in customer analytics
- iii) Transform digital channels through digital convergence
- iv) Focus on core banking transformation to enhance competitiveness

Therefore, as highlighted above, globally banks are making business and technology investments to change their business models. This is basically to comply with new regulatory requirements, enhancing capital adequacy, rolling out new channels such as social media, and leveraging customer data analytics and predictive analytics to enhance customer understanding, minimize risks, prevent frauds and to avoid or buffer against any financial crisis in the future.

## **Role of the local banking sector in changing economic paradigms**

As stated at the beginning of this article, the Sri Lankan banking sector plays a pivotal role as a key strategic partner of the Government, supporting the country's growth momentum of the economy, to achieve its historic goal by 2016. Noting the future trends of the global banking sector highlighted above, it is timely and very important for the local banking sector to improve resilience to face external and internal shocks, introduce innovative and futuristic banking products, expand access to finance and consumer protection to make strategic business and technological investments, and to change out-dated business models as some of the key drivers to promote a strong and dynamic banking sector through business excellence, to contribute to the country's above strategic goal. The directors and senior management of banks are key players in setting strategic directions to their individual banks. The Government expects the banks to align their own strategic goals with that of the country's national goals, and ensure a sound and resilient banking sector in the country with new reforms and compliance with the Central Bank of Sri Lanka directions and policy guidelines.



The Governor of the Central Bank of Sri Lanka (CBSL), through a special volume containing “Directions, Determinations and Circulars Issued to Licensed Specialized Banks” issued in December 2013, gives clear directions to all directors, senior management and other staff of the banks to be fully conversant with the guidelines issued from time to time by the CBSL, and thereby ensure compliance. This is to ensure improved risk management, corporate governance, efficiency and resilience in the banking sector, in order to be more effective in its role in supporting the country achieve its above mentioned key strategic goals. Like other organizations, banks too require many valuable resources to fulfil their long-term objectives. In a scenario as above, to play a crucial role as key strategic partner of the Government in a national objective, banks should be confident of their strategic capability.

## **People advantage through strategic resourcing for banks to face new challenges**

According to Armstrong (2012), the strategic capability of a firm depends on its resource capability in the form of people (the resource-based view), and provides the rationale for strategic resourcing. Therefore, it is important to find out how banks achieve competitive people advantage through strategic resourcing, to play the above crucial role as the Government’s strategic partner, facing new challenges. As already defined, ‘Strategic Resourcing’ is a key component of Strategic HRM, or matching human resources to the strategic and operational requirements of the firm and ensuring the full utilization of those resources. Since the strategic capability of a firm depends on its resource capability in the form of people, the objective of strategic resourcing is therefore, to ensure that a firm achieves competitive advantage by recruiting, retaining and developing more capable people than its rivals. Strategic resourcing places more emphasis than traditional personnel management on finding people with right attitudes and behaviours, which are likely to fit what management believes to be appropriate and conducive to success. A firm attracts such people by being ‘the employer of choice’. It retains people by providing better opportunities and rewards than others, and by developing a positive psychological contract (implied expectations that exist between the individual employee and its employer), which increases engagement and commitment and creates mutual trust. Further, the firm deploys its people in ways that maximize the added value they supply and develops their talents and skills. Therefore, according to the above scholarly view, it is crucial for banks to recruit the best people, retain and develop them through strategic resourcing, in order to achieve competitive people advantage to face the new challenges in changing paradigms.

## **Conclusion**

This article discussed the topic, ‘Strategic Resourcing : Competitive People Advantage for Banks in Changing Paradigms’. The discussion was based on the theme, the historic economic paradigm change of Sri Lanka, i.e. to reach the upper middle income level by 2016 or to achieve a 100 Bn economy with a USD 4000 per capita income by 2016. The role of the local banking sector as a key strategic partner of the Government was highlighted in this



crucial target, emphasizing on the importance of strategic resourcing through strategic HRM, for competitive peoples advantage for banks in changing economic paradigms. The above discussion was elaborated on the following sub topics :

What is strategic resourcing ? What is Strategic HRM ? Why Strategic HRM is important to banks ? Changing paradigms of the Sri Lankan economy; Challenges to be faced by the county with changing economic paradigms; Performance of the local banking industry in the recent past; Performance of the global banking sector Future trends of the global banking sector; Role of the local banking sector in changing economic paradigms; and People advantage through strategic resourcing for banks to face new challenges. Finally, it was emphasized that it is critical for banks to employ the best people, retain and develop them through strategic resourcing, in order to achieve competitive people advantage, to face the new challenges in changing economic paradigms .

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