Resource Cursed Economies and HR Practices

Tamer K Darwish, Pengiran Muda Abdul Fattaah, Geoffrey Wood, and Satwinder Singh

Introduction

In consideration to the literature available on the ‘resource curse’, organisations functioning in national economies with a recognised wealth of oil and gas are seen to experience notable obstacles in achieving a competitive edge (Darwish et al. 2017). This is predominantly seen to be as a result of the oil and gas sector to cause an overflow of investment across human and physical capital in other domains linked with governance issues, a propensity for policymakers to turn to oil and gas to overcome developmental issues as opposed to encouraging more wide-ranging institution-building, and the over-valuation and associated instability of currency (Collier 2010; Ross 2012). In a number of different petro-states, the oil and gas sector is seen to be well controlled and regulated, whereas there is a complete neglect in this regard when it comes to non-resource sectors (Auty 1993; Singh et al. 2019). In the case of such difficult situations, it may be suggested that the human aspects of business competitiveness are bestowed with specific value. In consideration to the case of the micro-petro-state, namely that of Brunei, this chapter presents empirical work which examines the degree to which HR practices could prove valuable in overcoming negative sectoral impacts, drawing a comparison between the case of organisations functioning in the oil and gas sector with those functioning in other sectors, and further determines the comparative lessons to be made in striving to garner insight into the possible performance-related outcomes of HR interventions in resource-centred national economies.

When it comes to investigating the association between HR practices and performance, the effects of strategic HR implementation and devolvement across businesses have attracted much attention (see, for example, Pfeffer 1998; Budhwar 2000; Paauwe 2009; Guest 2011; Sheehan 2012; Singh et al. 2012b; Darwish et al. 2015). The incorporation of HRM in the design of business strategy is commonly referred to as strategic HR involvement (SHRI); in contrast, HR devolvement (SHRD) may be referred to as the decentralisation of the main HR practices to Line Managers, meaning personnel specialists are not assigned in this regard (Brewster and Larsen 1992; Darwish and Singh 2013). There is the view that HR practices and policies being incorporated within business and corporate strategy could improve general organisational performance (OP), with HR devolvement recognised in the same vein, which could mean any obstacles arising as a result of context may be improved upon (see Cunningham and Hyman 1999; Budhwar 2000; Andersen et al. 2007; Karami et al. 2008; Sheehan 2012). Nonetheless, various works carried out in this vein have been completed in a Western context; therefore, this chapter provides an effort to fill this void by directing emphasis to the case of a developing marketing petro-state.

In particular, the effects of specific SHRI and SHRD on staff turnover are investigated, with managerial views pertaining to financial performance across all sectors in Brunei further considered in light of whether such interventions are able to improve upon the obstacles associated with functioning in a non-resource sector in a resource-rich region. Notably, the country is recognised as being generally well developed and as a stable Southeast Asian country with a number of rich nature resources. The view may also be given that organisations functioning in similar markets, in addition to commodity-driven economies, may be well positioned to learn a number of lessons from what Brunei has achieved, particularly in regard to differences and the obstacles experienced in non-oil and gas sectors in these regions.

The Resource Curse and Organisational Competitiveness

Literature available on the resource curse highlights resource-rich regions as most predominantly characterised by a less stable macroeconomic performance when contrasted alongside those with a lesser abundance of mineral riches (Auty 1993; Alexeev and Conrad 2009; Anderson and Ross 2010; Bhattacharya and Hodler 2010). This may be owing to the inclination of currencies to be over-valued; meaning that there is a lesser degree of competitiveness in other sectors, with investors instead focusing on achieving easy returns from minerals in addition to ensuring profitable contracts from governments offering royalty enrichments (Darwish et al. 2017). Subsequently, the latter demonstrate fewer incentives when it comes to motivating the improvements in of institutions and linked policies geared towards achieving more wide-ranging economic development or the encouragement and support of (developmental) initiatives that may be viewed as problematic to support without ongoing financial support, meaning across-sector performance may be inconsistent and unstable (Collier 2010; Ross 2012). In this vein, critics have implemented charges across those countries that benefit from natural resource windfalls (Haber and Menaldo 2001; Alexeev and Conrad 2009). Nonetheless, studies carried out more recently highlight the view that such works have taken into account specific countries and time periods; during what is recognised as a period of historically high and volatile commodity prices, the various obstacles experienced in encouraging wide-ranging development from natural resource increases have become more powerful (Andersen and Ross 2015; Wiens et al. 2014). This then causes a number of questions to arise in regard to implications for HRM. Primarily, the specifically inconsistent and unbalanced nature of development is then expected
to result in a skills gap across nonresource industries in the economy (Nuur and Laestadius 2010). Secondarily, in the State sector, lucrative protected job opportunities, as well as oil and gas organisations aiming to achieve authorities’ goodwill, results in significant degrees of employee turnover, which subsequently induces a drain of talent from other economic areas (Mellahi and Wood 2002; Mellahi 2007). In a comparable vein, when considering that oil and gas donations could potentially increase political stakes (Bhattacharya and Hodler 2010), petro-state governments commonly aim to further develop employment in an effort to encourage stability; subsequently, this could mean that human resources in other economic fields are stripped, which ultimately causes difficulties for employers in the latter to achieve productivity or implement discipline (Darwish et al. 2017). Essentially, as opposed to dealing with efforts to improve productivity or work in other areas, staff may then look at opting out and instead direct their attention towards more substantial welfare provisions or, alternatively, more favourable sheltered employment.

When aiming to deal with these obstacles, the view may be posited that the comparative development of the HR function, enables management to provide flexible responses to these daily obstacles, and entrusting HR with a fundamental strategic value, enabling a more proficient allocation of resources to the development of internal training and skills, and to encourage retention, is fundamental; nonetheless, in this same way, an inadequate volume of resources could mean greater problems in this area, with contextual circumstances potentially too overwhelming to facilitate positive outcomes from HR interventions (Mellahi 2007).

Context

Brunei may be described as a quickly developing micro-petro-state; in much the same way as other regions of a comparable status, Brunei may be recognised by its generally strong presence of foreign multinationals and its significant number of expatriate workers, both in the skilled professionals arena and that of semi-skilled and unskilled (Darwish et al. 2017). It is possible that professional expatriates could come to face a number of problems when it comes to adapting to the local environments and its cultures; however, they offer unique capabilities, insights, and skills (Singh et al. 2019). On the other hand, in the case of those employees recognised as semi-skilled and unskilled, such individuals are more likely to be given only low wages and corresponding low-status work, with dismissal and deportation likely in the event of poor performance (Santoso 2009). In the case of Brunei, net migration rate is recognised as 2.4 migrant(s)/1000 in 2015 (CIA 2016). Moreover, an estimated 200,000 people are identified making up the employee base – both unemployed and employed; it was established that, in regard to the labour force participation rate, this was 68%, with an estimated 55,000 employed by the public sector whereas more than 91,000 are employed by the private sector; in consideration to those who are employed, the percentage making up Brunei citizens is 53.7% whereas 46.3% are recognised as temporary residents (Darwish et al. 2017). Notably, the government of Brunei has stated that, in consideration to the requirement for greater diversity across the economy, a much larger labour force would be required; nonetheless, it is recognised that migrant workers need to enable diversification plans owing to the fact that the key Bruneian local labour force shows a penchant for roles in the public sector as a result of such work providing both stability and security (Tasie 2009). Furthermore, in consideration to local employees, these are seen to achieve advantages through indigenisation legislation; in regional terms, such individuals are positioned to gain access to a valuable skills and training development system on a local vocation basis, predominantly as a result of good job roles being available in the public sector, with locals seen to show a disinclination to adopt skilled and technical roles in the private field (Minnis 2000). Such a significantly segmented labour force means the challenges of the HR manager, particularly in the case of multinationals, are especially problematic; once again, such a situation could imply that HR function development might garner specific advantages; due to the variation in workforce needing to be managed between Line Managers, the organisation might be positioned to benefit from a more in-depth insight in relation to the abilities and requirements of specific groups of employee (Darwish et al. 2017). In a comparable vein, although there are key approaches to management, it is nonetheless expected that improved HRM opportunities in regard to adopting a strategic role could mean the firm is more responsive to each of the group’s abilities, requirements, and potential.

In a comparable vein to various other oil-rich countries, the economy of Brunei has come to face a number of peaks and dips as dictated by the worldwide market, with economic growth demonstrating an average 2.8% average growth in the 2000s, with a key dependence on oil and gas production. Brunei’s economy, without question, needs to be dependent on the gas and oil industries to a lesser degree, with the gas industry making up more than half (60%) of all GDP, and a large majority of the country’s overall exports (OECD 2014). Importantly, Brunei is seen to be the fourth most significant oil producer in the Southeast Asian region, with ASEAN countries, Australia, India, Japan, New Zealand, and South Korea recognised as the key destinations of export; furthermore, when examining the issue of the exportation of liquefied natural gas, Brunei is seen to be the ninth largest exporter, with most exported to both South Korea and Japan in the form of liquefied natural gas (Darwish et al. 2017). In consideration to the significant dependence shown by this country towards the oil and gas arena, the overall progression of the country’s private sector has been influenced; more specifically, a consistent 20% has, during more recent years, been contributed to GDP by the non-oil and gas industries (OECD 2014). Owing to the country’s reliance on oil and gas industries, a larger government sector is now apparent in Brunei; this has restricted the private sector’s overall opportunities and role (Darwish et al. 2017).
The domination of the industries has been reinforced by the low productivity coupled with high labour wages, where the former is recognised as a factor in the lack of international competitiveness demonstrated by the private sector (Lawrey 2010; OECD 2014).

Moreover, as considered above, in the case of those economies that are commodity-focused, it is likely that there will be a significant degree of variation witnessed at a practical level when examining the minerals and non-minerals sector; in regard to the various obstacles being experienced by non-primary commodities-centred industries, the point may be made that competitiveness’s human aspect is then expected to be assigned with specific value in the case of the latter (Darwish et al. 2017). Accordingly, emphasis in this chapter is placed on sector, with the differences between the oil and gas, and non-oil and -gas industries, highlighted.

HR Practice and Performance

Strategy, HR Involvement and HR Devolvement

The literature available in regard to HR involvement and devolvement considers the idea as some type of business dedication to the strategic management of people (Truss and Gratton 1994; Darwish and Singh 2013). In the case that people are recognised as being the most highly valued asset of a firm and need to be optimally deployed in an effort to attain business-related objectives, then, in an effort to do so, there is a need for them to be efficiently involved and integrated across an organisation’s strategic activities; again, the point may be laboured that the daily issues of HR facing Line Managers could allow the HR department to focus on other considerations pertaining to strategy, as highlighted by various scholars (Cunningham and Hyman 1999; Budhwar 2000; Singh et al. 2012a). More keenly associating HR function with the overall strategic decision-making process of the firm acknowledges the value of efficient and effective HRM in terms of securing a consistent and long-term competitive edge (Budhwar 2000; Truss et al. 1997). As highlighted earlier, HR devolvement centres on HR practices being assigned to the Line Managers, which of course requires that they are entrusted with administering and adopting such tasks as a direct result of their closeness with their subordinates, thus facilitating their control, management, and motivation (Cunningham and Hyman 1999; Budhwar and Khatri 2001). Such tasks being devolved to Line Management assists in overcoming obstacles and problems that otherwise would warrant clear insider insight, which can at times be too complex for top management to deal with independently (Darwish et al. 2017). The point has also been made that more intimate links and interactions between the HR Director and Line Manager can mean the former is able to garner a more in-depth insight into the issues across various organisational functions and to facilitate quicker responses to staff concerns (Sullivan 2003). In addition, it may also allow the HR function to adopt a more effective and operational part in the strategic process of the firm (Darwish and Singh 2013). Furthermore, HR devolvement and HR involvement can together facilitate a more efficient adoption for High Performance Work Systems (HPWSs) across firms; when these are lacking, HPWSs are not considered practical. It is further stated that organisations encompassing efficient HPWSs share and are transparent with information in regard to business-centred goals and strategy, where staff are able to appreciate and acknowledge the valuable connection between business strategy and HR practices (Darwish et al. 2017). As a result, this allows the perceived significance of HPWS whilst also enabling a significant degree of strategic HR integration (see Lawler 1992; Becker and Huselid 1998; Pfeffer 1998; Evans and Davis 2005; Bowen and Ostroff 2004). In contrast, empowerment is further viewed as being a fundamental organisational practice that also enables HPWS in its positive link to business performance (Pfeffer 1998; Huang 2000).

HRM and Organisational Performance (OP)

The literature considering the link between performance and HR interventions is vast, although varied results are detailed in such works (see Rogers and Wright 1998; Paauwe 2009; Guest 1997, 2011; Darwish et al. 2013; Singh et al. 2016, 2017). In consideration to the latter, this chapter primarily aims to present a further assessment of the strength and nature of any and all connections as an initial point for the investigation of contextual variations. Variation within and across the findings could highlight the wide-ranging and all-encompassing discussion as to how organisational performance can be defined, highlighting not only differences from one national accounting standard to the next, but also how strong performance can be signified and for whom (Rogers and Wright 1998). Accordingly, organisations will be encouraged by both formal and informal rules to implement particular groups of HR practice, with the recognition that a number of high value-added HR models will also achieve much more efficient results than others (ibid.; Brewster et al. 2007). Otherwise stated, the choice, sustainability and viability of particular HR models and related work systems are clearly intimately associated with contextual circumstances (Darwish et al. 2017).

It is recognised in the resource curse literature that institutional configurations are more dominantly focused on serving the minerals sector, with investment capital and talent subsequently seen to be drained from other economic domains (Auty 1993; Mellahi 2007; Nuur and Laestadius 2010). The notable backwash effects such as these suggest
that strategic HR interventions across organisations in the latter economic domain will not be as effective when it comes to decreasing staff turnover rates and improving organisational performance (Darwish et al. 2017).

Accordingly, the following two propositions are outlined:

1. A negative relationship can be identified between strategic HR involvement and HR devolvement, and employee turnover; where involvement and devolvement are seen to be greater, employee turnover rate will be lower. Nonetheless, such effects are seen to be focused in the oil and gas sector.

2. A positive relationship can be identified between strategic HR involvement and HR devolvement, and perceived financial performance; where involvement and devolvement are seen to be greater, perceived financial performance will be higher. Nonetheless, such effects are seen to be focused in the oil and gas sector. As can be seen above, as documented in the resource curse literature, in those countries identified as mineral resource-rich, other economic areas strive to compete; thus, organisations such as these are then expected to be forced into a position of basic survival, with a notably lesser volume of resources able to be directed towards strategic HR issues (Darwish et al. 2017). Otherwise stated, should strategic HRM be able to improve upon the various obstacles facing non-resource sector operations, this may not be as probable. The resource curse literature makes the point that those interventions implemented in-firm are not as likely to improve upon the negative effects of operating in a resource-rich arena (Auty 1993). Accordingly, the third proposition is outlined:

3. Significant differences will be identifiable between oil and gas and non-oil and gas sectors when there is a presence of strategic HR involvement and HR devolvement. Non-oil and gas sector direct much less attention towards SHRI and HRD issues when contrasted alongside the oil and gas sector.

To examine the above propositions, data has been garnered form a primary survey completed by HR directors utilising a cross section of organisations in Brunei. The total rate of completion was 151 surveys from a sample of 214, which was recognised as representative of a high rate, notably that of 70% (for more details in relation to measurement, data, and analysis, see Darwish et al. 2017).

Discussion and Conclusions

A number of key differences have been identified across sectors in regard to performance consequences in relation to the arrangement of HR management. It was further established that strategic HR involvement is significantly influential when it comes to decreasing the turnover rate of staff within the non-oil and gas sector; across the oil and gas sector, such variations were not identified, which could mean that the sector’s structural dynamics are reflected, with employment viewed as being far more necessary than other areas (beyond the public sector), although a high rate of the poaching of skilled employees was witnessed in the pursuit of satisfying indigenisation quotas (Darwish et al. 2017). In a number of petro-states, somewhat privileged ‘insider’ groupings of indigenous nationals were seen to frequently involve themselves in role-hopping and/ or even rejecting challenging employment in favour of cosier State positions, whereas the most talented, skilled and productive of employees were seen to strive to secure a role with a more lucrative position in the oil and gas sector unless organisations across other domains were seen to proactively adopt measures focused on retention (Mellahi and Wood 2002; Mellahi 2007; Darwish et al. 2017). At once, this highlights that HR interventions at the organisational level are influential in overcoming a number of the problems inherent in the non-resource sectors. Nonetheless, from an across-economy perspective, HR devolvement was not seen to have an impact, which could potentially highlight the degree to which devolvement might epitomise a variation of realities; accordingly, while the first might be to redirect a significant portion of daily administration over to frontline HR staff, thereby enabling the HR department to direct their attention towards more wide-ranging strategic considerations, the second might highlight an altogether lack of HR function, with foundational HR administration carried out at the frontline but with a lack of more wide-ranging HR abilities (Darwish et al. 2017).

Nonetheless, although one aspect of the majority of petro-states is a significantly segmented labour market identified at the organisational level of HR management, this does not necessarily infer that HR managers’ involvement in outlining strategy is without effect; in actual fact, it would seem to have a positive impact on performance from a general perspective (Darwish et al. 2017). Regardless, however, HR devolvement seems to exhibit significantly positive performance consequences for those organisations operating in non-resource sectors; once again, this could highlight the lack of clarity in the concept of HR devolvement; a number of organisations in the non-oil and -gas sector continue to be locked into a basic cost-cutting approach, meaning that, in such circumstances, well developed central managerial administrative functions could be recognised as financially untenable (Darwish et al. 2017).

As a conclusion, much sectoral divergence was witnessed when examining the issue of strategic HR involvement in the case of central issues of business-related strategy, with clearly comparable practices in the vein of devolvement; nonetheless, it is likely that the former will shape and influence the latter, with devolvement seen to either highlight an overall intensity of the HR department on strategic issues, or otherwise an entirely inadequate ability and shortage of resource in the case of the latter (Darwish et al. 2017). Nonetheless, across a number of different petro-states
encompassing significant foreign labour forces carrying out both unskilled and semi-skilled positions, HR devolvement can also highlight problematic aspects, regardless of industry. As is widely recognised, foreign workers tend to have very few legal rights, and it may therefore be seen that desire for HR devolvement in such a situation could similarly highlight an inclination to repeal responsibility for the low value-added ‘dirty work’ of adopting authoritarian approaches to employment and work onto low-level management and frontline staff (Darwish et al. 2017; Singh et al. 2019).

As a result of the above, a number of key concerns are raised in the field of HR practice. Primarily, there is the possibility that HR management, when faced with more difficult situation, will encourage higher value-added and more ethically centred HR practices; this work has highlighted the overall comparative authorisation of HR management as being intimately aligned with sectorial dynamics; as such, it is expected that such ‘norm entrepreneurship’ would further support existing internal diversity, as opposed to facilitating in filling the void in practice between oil and gas, and other industries (Darwish et al. 2017). Second, the research has emphasised the degree to which long historical legacies – and drawbacks – both within and across national institutional contexts, could pose a number of problems to overcome, with the practicality of both strategic methods of HPWS and HRM reliant on situations (Brewster et al. 2007). This is not to state that organisation-level innovation cannot be achieved or that there is the potential for fresh strategic initiatives; in actual fact, the spectrum of choices and results may be facilitated or restricted by situations (Darwish et al. 2017).

A wealth of foreign investment has been attracted into Brunei during more recent periods, with these predominantly witnessed following oil and gas; however, across a number of petro-states, the non-oil and -gas industries have come to experience a number of critical obstacles when aiming to achieve a competitive edge (Singh et al. 2019). This work has identified the urgency with which HR Directors in Brunei need to adopt a more wide-ranging role spanning beyond HRM and its daily technicalities. Furthermore, embedded local prejudices should be followed in contrast with less skilled categories of ‘guest’ workers, meaning that involvement in HR issues becomes counter-productive (Santoso 2009). Accordingly, should organisations functioning across the non-oil and -gas sectors in petro-states come to experience the fundamental, inherent issues stemming from competitiveness, it might become apparent that HRM is not only more important but also lacking in resource; in this case, firms might need to function at a lower level of survival, and would then show greater hesitancy in investing in any area outside of those critical to operations (Darwish et al. 2017). These behaviours might also be manifested in other petro-states in consideration to comparable ‘resource curse’ reasons; of course, support garnered in the context of the Kingdom of Saudi Arabia implies that those organisations operating beyond the oil and gas sector have experienced a number of critical HR challenges in regard to resources, skills, and establishing a sustainable competitive edge (Mellahi and Wood 2002; Budhwar and Mellahi 2006). One valuable path of further research to be explored in the future could be the compilation of research evidence from other areas, where the latter would be able to position and encourage a particular HR practice model in petro-states, and in establishing which aspects of practice are most unique to Brunei; further, a more intimate analysis pertaining to the relative efficacy of HR devolvement and workforce composition in contexts such as that of Brunei could also garner some valuable knowledge into the obstacles linked with the management of various other expatriate groups (Darwish et al. 2017).

This chapter presents an empirical work that is centred on the completion of a single country case study, but nonetheless provides support for other works carried out in the field of HR across petro-states (Mellahi 2007). A productive foundation for further work could involve widening the panel of petro-state country cases; there is recognised potential for petro-states with a greater degree of corporate governance structure and developed institutions to showcase a less pronounced segmentation, meaning a greater position in terms of skills development and more mature training, along with a greater degree of balance across organisations in the national economy (Mehlum et al. 2006; Darwish et al. 2017).

Although literature carried out on the resource curse implies that organisations operating in non-oil and gas industries in petro-states continue to experience obstacles induced at the structural level, it remains that a number of the negative HR consequences may be improved upon through strategic choice; more specifically, in consideration to organisations’ management of their staff (Darwish et al. 2017). The empirical work presented in this chapter has provided support for the view that people management is fundamental and highly influential, even in the case of marginalised areas of national economies. Nonetheless, although organisations in the latter arena are not as well positioned to offer the resources or abilities to facilitate strategic HRM function ability, it remains that introducing structural institutional change is far more problematic than improving the role of people management; to this end, this would enable some portion of the solution to be presented in relation to context-based problems (Darwish et al. 2017).

References


