Strategic Human Resource Management and Organisational Performance: An Investigation in the Country of Jordan

A thesis submitted for the degree of Doctor of Philosophy

by

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Abstract

The purpose of this research is to contribute to the understanding of the debate surrounding strategic human resource management (SHRM) and organisational performance. The relationship between SHRM and organisational performance has been a heavily deliberated issue over the last decade. A survey of literature on SHRM and its impacts in terms of performance reveals that empirical results on this topic are, as yet, inconclusive. Whilst some studies have found the impact to be positive, the results from several other studies cast doubts concerning the overall efficacy of (positive) HR practices on firms' performance. Moreover, researchers have argued that there is a need for additional studies on the HRM-performance link, and that further investigations in different contexts are required.

This study responds to the call of researchers, and is conducted in a new non-Western context in the country of Jordan. The work contributes to our understanding of HR practices' impacts on employee turnover rate as well as on the actual and perceived financial performance of organisations. The empirical analysis is based on theoretical propositions which state that motivated employees, through good HR practices, remain in their positions longer and contribute positively to the overall financial performance of organisations. Rigorous statistical testing of the data on the population of financial firms shows that careful recruitment and selection, training, and internal career opportunities all have a positive impact in terms of reducing employee turnover. Training, in particular, is found to have a strong positive impact on actual and perceived financial performance. The findings do not support the indirect HRM-performance relationship mediated by employee turnover. The study provides strong support for the universalistic approach that a group of best HR practices will continuously and directly generate superior performance for the companies. We also find no evidence to support the notion that bundles or complementarities of HR practices impact better on financial performance than individual HR practices.

We test the impact of strategic HR involvement (involving HR functions in the overall

strategic process of the company) and HR devolvement (delegating the day-to-day HR issues to line managers) on organisational performance. Our results show that financial performance can be enhanced and employee turnover rate decreased by involving HR directors in the overall strategic decision-making process of the companies. The results indicate that the alignment of HRM with organisational strategy would improve the financial performance of the companies; however, our results suggest that the devolvement of routine HR issues to line managers may not be positively related to the financial performance of the companies or negatively related to employee turnover.

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List of Abbreviations

ASE	Amman Stock Exchange
AVE	Average Variance Extracted
CEO	Chief Executive Officer
ECB	Economic Commerce Bureau
GDP	Gross Domestic Product
GRATE	Gross Rate of Return on Assets
HPWS	High Performance Work Systems
HRM	Human Resource Management
IT	Information Technology
JD	Jordanian Dinar
JIB	Jordanian Investment Board
KMO	Kaiser-Meyer-Olkin
MCAR	Missing Completely at Random
MVA	Missing Value Analysis
R&D	Research and Development
RBV	Resource-based View
ROA	Return on Assets
ROE	Return on Equity
SEM	Structural Equation Modelling
SHRM	Strategic Human Resource Management
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
VIF	Variance Inflation Factors

Dedication

To my beloved parents and family

This thesis is dedicated to my ever-loving mother, Ghada, for her continuous love and support. She always believed in me and made it all possible. Her endless love and encouragement has absolutely helped me to achieve my dream. Without her standing by my side and her permanent support, this work would not have been possible.

To my wonderful father, Khalil, who has been a great source of motivation, inspiration and everlasting support throughout my journey, and who sacrificed everything for me to be what I am now.

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Above all, I am grateful to God who has given me the strength to complete this work and who continues to bless me daily.

Author's Declaration

I, Tamer Khalil Darwish, declare that the ideas, research work, analyses, findings and conclusions reported in my PhD thesis are entirely my own efforts, except where otherwise acknowledged. I also certify that this thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Publications associated with this Thesis

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CHAPTER ONE: INTRODUCTION

1.1 Research Background

The field of human resource management (HRM) has travelled a long path from its humble beginning as personnel management where the job of personnel manager was concerned with recruitment and keeping track of payrolls, promotions and other routine personnel issues. The modern field of strategic human resource management (SHRM) is attracting a great deal of attention owing to its potential impact on the functioning of the organisations. There is now an evolving belief that, if organisations wish to survive and compete in the present-day knowledge-based global economy, they have to acquire, develop, and accordingly manage world-class human resource competencies and practices (Pfeffer, 1994, 1998; Schuler and Jackson, 1999; Khandekar and Sharma, 2005; Moideenkutty *et al*., 2011). This belief has led to research concerned with the link between SHRM and organisational performance.

A number of researchers who have conducted studies on this research stream have confirmed the positive impact of HRM/SHRM—also known as the HRM-performance link or the HRM-performance debate[1]—on organisational performance (see, for example, Huselid, 1995; MacDuffie, 1995; Delery and Doty, 1996; Wright and Boswell, 2002; Moideenkutty *et al*., 2011; Razouk, 2011). However, there is also a group of researchers who have argued that the results of the HRM-performance link are ambiguous (Beardwell *et al*., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and that additional studies in different contexts are required to obtain a broader view on the HRM-performance link (see, for example, Gerhart, 2005; Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007; Guest, 2011). This research is addressed to fulfil this gap in the literature in the context of the country of Jordan.

[1] The terms 'SHRM/HRM and performance ', 'HRM-performance link', 'HRM-performance debate ', 'HRM-performance research' are used interchangeably in this research.

1.2 The Problem Statement and Research Question

During the course of many decades, the field of HRM has attracted much attention across various disciplines owing to its contribution and impacts on the bottom-line issues within organisations. One particular area which has received considerable attention is the link between HRM practices and organisational performance. Scholars have consistently attempted to understand the impacts of HRM practices on organisational performance in several ways. Although a number of studies provide evidence of some form of the link between the HR practices and organisational performance, strong and consistent evidence that SHRM does indeed positively impact on performance is lacking. The survey in this research (Chapter Two) confirms the observations made by some researchers (for example, Beardwell *et al*., 2004; Paauwe and Boselie, 2005; Wright *et al*., 2005; Chand and Katou, 2007; Paauwe, 2009; Guest, 2011) that there currently lacks a clear theory on HRM and organisational performance, and there is also a dearth of data concerning the link between them. Importantly, the overall results garnered thus far are not encouraging and are, in fact, inconsistent. Additional empirical work is likely to be helpful in advancing and developing the understanding of the impact of HRM on organisational performance.

In this research, we empirically test the relationship between HRM and organisational performance in the context of the country of Jordan – a context within which little past research into HRM has been undertaken. The design includes a detailed survey instrument sent to all financial firms within the country. The present work also responds to the call of several HRM researchers who have urged the need for investigations in HRM issue from different contexts (Ericksen and Dyer 2005; Wright, Snell and Dyer 2005; Chand and Katou 2007). More to the point, thus far, almost all the studies on this topic have been conducted in the case of industrial sector in the Western context. This work, in contrast, is conducted in an all-important financial sector in Jordan, which adds value to the existing literature. A review of literature in the context of Jordan shows that very few studies on issues relating to HRM in general exist, with none on the topic investigated in this research (Al-Husan, Brennan and James 2009; Altarawneh 2009; Altarawneh and Al-Kilani 2010; Mohammad 2011). Additionally, in the wake of the recent financial crisis, this research assumes special importance in regard to unearthing the assumed role of HRM practices of financial

firms

An extensive review of the theoretical and empirical work conducted on the HRM-performance link shows some significant gaps in this area of research, as considered below.

First, each study in this research stream has utilised different combinations of HR practices; there is no standard or semi-standard list of HR practices to be considered and measured in terms of the link with organisational performance. This has led to a plea by some scholars for a specific theory on HRM (Paauwe and Boselie, 2005; Guest, 1997, 2011).

Second, as is the case with HR practices, there is no consensus amongst researchers regarding the measurement of organisational performance. Researchers have employed different performance indicators, mostly subjective, in different studies. It is strongly recommended in the HRM literature that HRM researchers should use multiple performance measures to cover the multiple goals of HRM and different parties that have been involved either within or outside of the organisation. It would be more rewarding if researchers also employed some objective measure to reduce the probability of common method variance (Wall and Wood, 2005) and to avoid misleading normative and descriptive theory building (Lumpkin and Dess, 1996).

Third, on the subject of the mechanism that has been used in research, this is also not considered consistent, with some researchers having examined the relationship directly whilst others have examined it indirectly through different mediating variables.

Fourth, several researchers have tested the impact of individual HR practices on performance, whilst others have examined the bundles or complementarities of whole HR practices on performance. HR, as a system or a combination of practices, is certainly a better approach when researchers seek to scrutinise the impact of such practices on firm-level performance (Delaney and Huselid, 1996). However, as no strong and compelling evidence for the effect of HR systems/bundles or the internal fit of HR practices on performance has so far been found, Panayotopoulou *et al*. (2003)

claim that the HRM-performance research has failed to consistently support the effectiveness of fit.

Fifth, the core aspects of strategic HRM—which are strategic HR involvement and HR devolvement—are not explored enough in this research stream. Strategic HR involvement and devolvement is intimately linked with the adherence to the notion of strategic HRM. It is said that the strategic nature has taken the shape of HR directors through involvement in the overall strategic management process and board meetings, and also by permitting them to devolve routine HR issues to line managers for them to concentrate more on strategic issues of long term importance (Carroll, 1991; Wright and Boswell, 2002). Several authors have evaluated the level of HR involvement and devolvement in organisations as they believe that such issues contribute positively to the performance of the company. Nevertheless, the impact of such variables on financial performance has not yet been explored in HRM studies, as recommended by some HRM researchers.

Finally, almost all of the studies concerning the impacts of HRM practices on firms' performance have been conducted in the US and the UK; hence, HRM researchers argue that it is difficult to make generalised conclusions from current HRM-performance results (Beardwell *et al*., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and that there is therefore the need for further empirical investigations from different angles (Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007). Based on the above important issues in relation to the HRM-performance debate, the present research aims to fill these apparent gaps by conducting an in-depth analysis of the HRM-performance link in the context of the country of Jordan; therefore, this thesis raises the main question as to whether or not SHRM affects organisational performance in the context of the country of Jordan.

1.3 Research Aim and Objectives

As stated previously, the primary aim of this research is to contribute to our general understanding of the impacts of SHRM on organisational performance, and in the process build a theoretical framework to empirically test this relationship in a new non-Western context. The research objectives can be stated as follows:

1. This research aims to contribute to the general understanding of the HRM-performance relationship in Jordan, and to provide some important implications and recommendations that can be useful for the context of the research, and more specifically for the financial industry in Jordan. In addition, as stated earlier, almost all of the studies concerning the impacts of HRM on performance have been conducted on the Western world, and HRM researchers argue that it is difficult to make generalised conclusions from current HRM-performance results (Guest, 2011), and that there is therefore the need for further empirical investigations from different angles (Wright *et al*., 2005). Therefore, the present research also aims to fill these apparent gaps by conducting an in-depth analysis of the HRM-performance link in the context of the country of Jordan.

2. This research intends to arrive at a better understanding on HRM-performance link by choosing a specific mixture of strategic HR practices that are expected to impact firms' performance. It employs a multi-dimensional concept of performance, taking into consideration subjective and objective variables to cover the multiple goals of HRM. Further, this research aims to consider both the direct and indirect impacts of HR practices on organisational performance.

3. A number of HRM researchers argue that logical combinations of HR practices in systems or bundles approach are difficult to imitate by other competitors and are more valuable than a single practice in isolation. This research aims to test the validity of this argument. Accordingly, it examines the impact of the complementary thesis of HR practices on organisational performance.

4. There is an implicit undercurrent in the HRM literature that the role of the present-day HR director has become more strategic as opposed to carrying out routine functions that a personnel manager performed until recently. This research takes a closer look at the strategic role HR directors play in the financial enterprises in the wake of these firms' attempts to enhance their organisational performance.

5. The present research examines the impact of the core aspects of SHRM (strategic HR involvement and HR devolvement) on financial performance. Following the recommendations of HR scholars (for example, Budhwar, 2000; Andersen *et al*., 2007), this is the first attempt to examine whether or not strategic HR involvement- and HR devolvement-related issues impact objective financial performance.

1.4 Statement of Significance

Jordan has opened its market to the international trade and investment and has thus grown to be a credible player in the international and the global market, thereby contributing to the need for more information concerning the business and management, and human resource development and practices. Selecting the country of Jordan to achieve the main aim of the current research has significant implications at the theoretical and practical levels. The country represents a significant regional economy with a strategic location, a relatively small population, and limited resources, thus requiring careful investment. Therefore, this research is expected to contribute to the HRM literature and, in particular, to the Jordanian context, where there is a desperate need for more research work to be conducted in such a country (Altarawneh, 2009).

This research attempts to investigate and clarify the theoretical aspects of the relationship between SHRM and performance, and to add to the growing body of knowledge in this context. Furthermore, building on the existing works in the field, this research contributes to this area of research by providing various theoretical and empirical insights for the value-added SHRM through the effects of HR practices on organisational performance indicators. The empirical analysis of this research is based on the theoretical preposition that employees motivated through good HR practices stay longer and contribute positively to the overall financial performance of organisations.

The present research contributes to our understanding of important HRM-performance issues. For instance, owing to the stormy debate in SHRM literature on the subject of HR bundles or the complementary approach, this research examines the efficacy of both cases. We therefore deal with HR practices as individual practices and as bundles

of practices. Testing both cases at the same time and in the same study is a must when seeking to reach at definite conclusion in relation to such an issue.

The current research also explores the role of HR directors in a new context to test out the claim made by various HRM researchers that a strategic shift has taken a place in the role of HR directors. Finally, this work contributes to the core aspects of SHRM as it answers the call of several researchers (for example, Budhwar, 2000; Andersen *et al*., 2007) by linking the strategic HR involvement and HR devolvement of SHRM with objective indicators of financial performance of the companies.

1.5 Jordan: A Country Profile

1.5.1 Historical and Political Background

Jordan, officially Hashemite Kingdom of Jordan, a country of six million inhabitants, occupies a strategic location within the Middle East bordering Saudi Arabia and the West Bank, as shown in the maps of Jordan and the Middle East in Figure 1.1. Amman is the capital and largest city. Although the country gained its independence from Great Britain in 1946, British heritage continues to appear in the Jordanian educational, economic and legal systems, and the English language is still used widely in business, government and academic fields (Al-Shaikh, 2003). Jordanians are Arabs except for in the case of some small communities of Circassians, Armenians and Chechens, who have lived and adapted to the Arabic culture. The official language is Arabic, with approximately 70% of Jordan's population urban; less than 6% of the rural population is nomadic or semi-nomadic. Moreover, an estimated 1.7 million registered Palestinian refugees and other expatriates, including Iraqis, reside in Jordan. The population of Jordan rose from 2.2 million in 1980 to 6 million in 2010. The population growth rate of Jordan for the period 2000–2010 was 2.3%, as can be seen in Figure 1.2; such figures are expected to increase to 10.2 million in 2050 (United Nations, 2007).

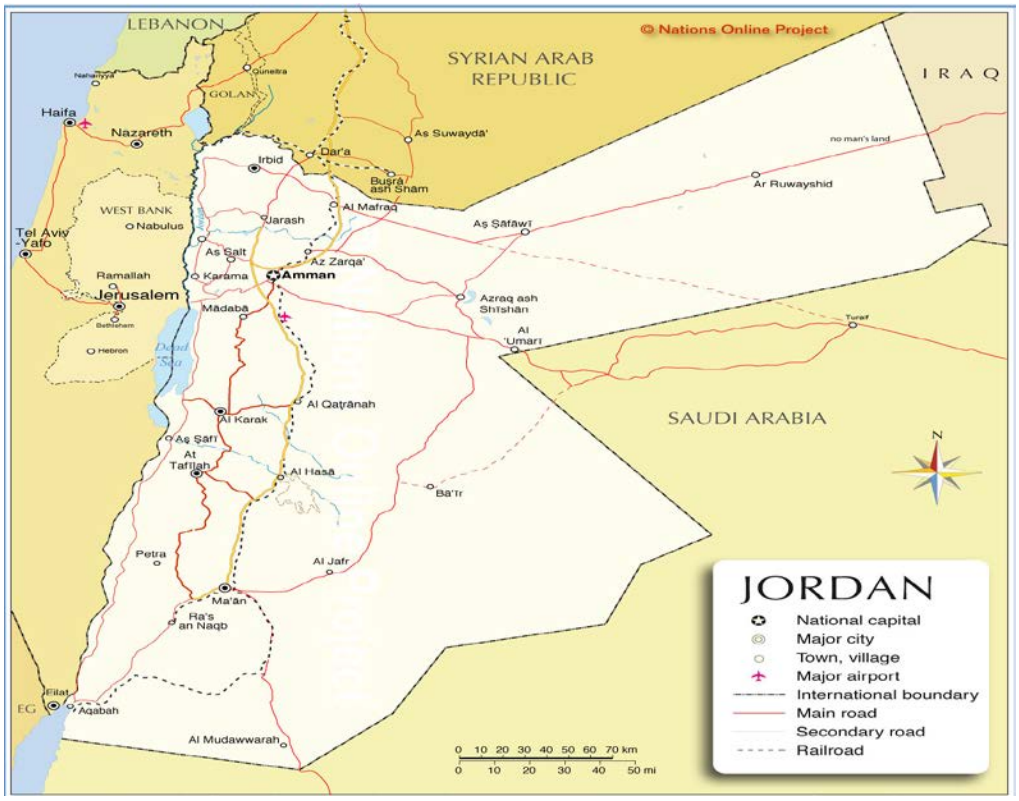
Jordan is a constitutional monarchy based on the constitution promulgated on January 8, 1952. The king is the head of the state, and he exercises his powers by royal decree countersigned by the Prime Minister and the ministers concerned. The decision-

making power is vested in the Board of Ministers, which is accountable to a two-house parliament. The 60 members of the higher house are appointed by the king, whilst the 120 deputies of the lower house are elected by the public.

The Cabinet is responsible to the Chamber of Deputies on matters of general policy and can be forced to resign by a 50% or more of vote of 'no confidence' by that body. The constitution provides for three types of judges: civil, religious, and special. Administratively, constitutional provisions identify the rights and responsibilities of the citizens, whilst guaranteeing the right of free worship, opinion, press, association and private property.

The constitution of Jordan specifies that the country is a hereditary monarchy with a parliamentary system; it defines the functions and powers of the state, the rights and obligations of the citizens of the country, the guidelines for the constitution's interpretation and the conditions for the constitutional modifications (Jordan News Agency, 2012). In addition, the constitution of Jordan authorise the division of the executive, legislative and judicial branches of government, and identify the regulation of the government's financial issues, and the enforcement and repeal of laws (Jordan News Agency, 2012). Notably, the constitution of Jordan also insure the rights of the citizens of the country such as the freedoms of speech, press, and religion, forming political parties, academic freedom, and the right to elect parliamentary and municipal candidates.

Figure 1.1: Maps of Jordan and the Middle East



Source: Nationsonline.org

1.5.2 A Cultural Overview

Organisations in the Arab world and their management practices and policies have

always been described as a mirror image of the cultural environment and social manifestations of that region. In actual fact, the customs, values and rituals of Arab businesses have been associated with the bureaucratic form of organisational structure. Consequently, organisations in the Arab world have a culture that is different from that of the West (Hofstede, 1991; Sabri, 2004). The systems are based upon centralisation of power and the order of hierarchy, in which work is heavily supervised and takes a systematic mode, where freedom and delegation have hardly existed (Ababneh, 2010). Although Arab societies work according to the contacts principle, as in 'it is not what you know, it's who you know", and the extended family and its features play a big role, Islam is still the leading aspect and the most important one in identifying the Arab culture (Agnala, 1998; Sabri, 2004).

Jordan is a small country located in the Middle East, and it is part of the Arab world. Therefore Jordan's culture and its management practices are described within the same Arab cultural context. Islam, tribalism and lack of democracy are the major factors on which the political, cultural and economic systems are based (Al-Rasheed, 2001). Jordanians are known for their obedience, following and respecting authority; hierarchy is translated in their regular lives by the effect of tribalism, which makes them believe in prioritising the survival of business and avoiding uncertainty and risk (Sabri, 2004). Similarly to any other Arab country, Jordan's culture is described as masculine, where males have power over females, unlike Scandinavian countries such as Sweden, Norway, and Denmark where the culture is basically feminine (Hofstede, 1991; Sabri, 2004).

An argument of differences between 'healthy' vs. 'unhealthy' organisational cultures had been proposed by Pauchant and Mitroff (1988). They noted that organisations may face certain difficulties when changing their cultures as they may experience subsequent resistance reactions from their own employees, just as it is difficult for a person to change his/her own perspectives and personality (Schraeder *et al*., 2005). However, since almost all organisations all over the world are experiencing huge global business pressures in addition to the new threats constantly being generated, they are impelled to create modern dynamic changes in their own culture to ensure a sustained future for the business (Schraeder *et al*., 2005). Pauchant and Mitroff (1988) have taken this idea further, suggesting that the organisation's own culture might be

its worst enemy. On the other hand, researchers have also argued that a strong organisational culture motivates employees, inspiring them to work harder and more closely in teams, which makes them more efficient in their efforts to achieve the organisation's goals (Ali and Sabri, 2001).

Organisations in the country of Jordan operate in a highly uncertain environment, like many other neighbouring countries (Ali and Sabri, 2001). Consequently, it becomes necessary for organisations in Jordan and most Arab countries to form a healthy organisational culture or at least apply a change in some aspects of their original cultures. This is because the culture, which constitutes a set of values, rituals, beliefs and attitudes, is likely to determine the ways in which an organisation will act in different situations, especially in an uncertain environment. Change will assist organisations to better acclimatize themselves to their changing environments and adjust to unexpected circumstances and future uncertainty. Furthermore, it is also important to note that culture change is not a single, isolated event, but rather an on-going process (Alpander and Lee, 1995).

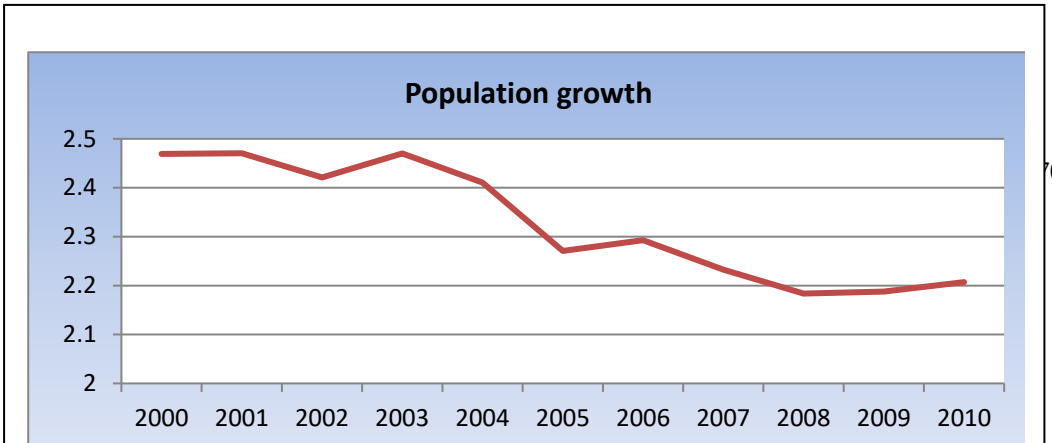
1.5.3 An Economic Profile

The economy of Jordan is considered one of the smallest in the Middle East, with limited water supplies and oil, and a lack of other natural resources, underlying the government's reliance on foreign assistance; the government of Jordan also faces other economic challenges such as constant high rates of poverty, inflation, budget deficit and unemployment (World Fact Book, 2009). However, more recently, the government of Jordan has agreed two economic relief packages and a budgetary supplement, mainly to improve the standards of living for the middle and low social classes. Furthermore, certain recent issues have negatively affected the economy of Jordan. For instance, Jordan's finances have been affected by attacks on the natural gas pipeline in Egypt. This forced Jordan to substitute more costly heavy fuel oils to produce electricity in the country. An influx of foreign aid, particularly from countries in the Gulf area such as Saudi Arabia, has assisted to some extent in counterbalancing these extra budgetary expenditures; nevertheless, the budget deficit of the government of Jordan is expected to remain high, at nearly 10% of GDP excluding grants (World Fact Book, 2009). Amman, the capital of Jordan, will probably continue to rely on

foreign assistance to offset the deficit in 2012. Notably, the financial industry in Jordan has been comparatively insulated from the recent international financial crisis due to its limited exposure to overseas capital markets. Additionally, the country is currently investigating and exploring nuclear power generation to preclude the shortfalls of energy.

The stability of the economy and politics are the main characteristics of Jordan, with the main features of Jordan's economy as shown in Figure 1.2, including average Gross Domestic Product (GDP) growth rate from 2000–2010 at 6%. Moreover, the inflation rate for the same period was seen to be standing at 3.9% whilst the total GDP was amounting to 19.7 billion Jordan Dinar in 2010[2].

Figure 1.2: Population, GDP and inflation growth rates in Jordan



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Source: World Bank, world development indicators

The government of Jordan continues to endorse foreign investment in order to spread and continue to provide society with the most recent services and products. For this reason, the Jordanian Investment Board (JIB) has been founded as a result of government awareness and the overall responsiveness of the significant role of

international business and foreign investment. As a result of such movements, new companies and businesses have been established; new markets have been created; and successful international business relationships have been developed between local organisations in Jordan and foreign companies. A number of businesses in the country have turned out to be driven by global standards regarding supply chain management and international business. To keep up with these developments and changes in Jordan, new research and development (R&D) centres have been established to support the industrial and economic changes and development in the country (Badran, 2001).

Jordan has joined several free-trade agreements with the US and the EU. It also has a party to several Arab free-trade and regional agreements with countries, such as Kuwait and KSA, as well as with numerous other organisations, including the International Chamber of Commerce, and the ISO. Furthermore, Jordan's stock exchange market has become one of the fastest growing open avenues for foreign investors. This growing international integration is exposing the country to both regional and international competition and risks (Al-Shammari and Hussein, 2008), which has subsequently coaxed companies into becoming increasingly competitive; however, given its limited natural resources, the onus is falling on the services and financial sectors, which is known to contribute over 75% to the country's national income (World Fact Book, 2009).

The Jordan stock market was established in 1978 with the main objective to create a formal mechanism for companies to increase capital and for people to exchange and trade financial securities on Jordanian firms. In 1978, the total market capitalisation of listed firms in the stock market was equal to JD 286 million. During the last decade, the market capitalisation of listed firms increased exponentially. Table 1.1 shows the main indicators of Amman Stock Exchange (ASE). The market capitalisation for the companies listed in ASE increased from JD 3.5 billion in 2000 to JD 26 billion at the end of 2008. The key improvements in stock market were seen in 1999, at which time the government of Jordan issued a new law, which is the financial securities law, wherein the ASE has become the official Jordanian's financial market.

Table 1.1: Main indicators for Amman Stock Exchange for the years 2000 to 2008

Year	Number of listed companies	Market capitalisation (JD million)	Value traded (JD million)	Market capitalisation / GDP (%)	Dividend Yield Ratio (%)
2000	163	3509.6	334.7	58.4	3.6
2001	161	4476.4	668.7	71.5	2.7
2002	158	5029	950.3	80.4	3.2
2003	161	7772.8	1,855.20	116.8	2.4
2004	192	13,033.80	3,793.20	184.7	1.7
2005	201	26,667.10	16,871.00	326.6	1.6
2006	227	21,078.20	14,209.90	233.9	2.3
2007	245	29,214.20	12,348.10	289	1.8
2008	262	25,406.30	20,318.00	226.3	2.5

Source: ASE market data, available on: www.ase.com.jo

In 2011, the World Bank began to recognise Jordan as one of the top ten most improved economies in Doing Business compared with 182 other countries. The main reason for this classification was that the country improved its credit information system through the establishment of a regulatory framework, thus leading to the creation of a private credit bureau. The country has also lowered the threshold for loans necessitating reporting to the public credit registry. Certain taxes were also abolished, and the government made it easier to file income and sales tax returns through electronic means (World Bank, 2011). However, it should be mentioned that Doing Business report deems that countries with weaker worker rights are better in such a report than countries that actually strongly maintain the rights of their workers. In fact, in Doing Business, regulations have an effect on 11 aspects of the life of a business (e.g., starting a business, dealing with construction permits, registering

property, paying taxes, trading across borders, closing a business), whist other types of data such as worker rights are not included in the report (World Bank, 2011).

Recently, globalisation accompanied with the telecommunication boom has had significant impacts on the Jordanian business environment. Globalisation and various technological advances, such as the internet, have forced societies and organisations to move forward and accordingly adapt the way in which they conduct themselves (Regester and Larkin, 2005). Owing to this, new multinational businesses were created, with numerous organisations in the country beginning to utilise more global platforms, such as e-business, e-commerce and e-learning[3]. Since 2001, Jordan, recognising such advancements, has also been rapidly developing its online services and other Information Technology (IT) services, especially in the education and service sectors. For instance, the country began utilising these platforms in a number of universities, such as the University of Jordan, in the form of e-learning. The quality of IT services has noticeably improved since then and, as a result, its usage of IT services has also increased.

1.6 Human Resource Management in Jordan

As stated earlier, in the section on Jordan's culture, HRM practices and policies in Jordan are influenced by cultural aspects such as tribalism and the bureaucratic form of organisational structures. In the context of Jordan, there is as yet no evidence that HR practices might have strong positive impacts on the overall organisational performance of companies. In addition, there is no clear evidence on the integration of HR functions in the overall strategic process of companies. In other words, we have no clear idea whether HR directors are involved in the strategic decision-making process in their organisations, be they public or private sector companies (Budhwar and Mellahi, 2006). However, almost all organisations in Jordan have an HR department at their headquarters and a qualified person in charge of HR functions. Such departments are responsible for HR issues such as training, recruitment and selection, performance appraisals, and incentives and rewards. In this section, we

[3] 'First Jordan' is such an example which has been recognised as a quality, innovative and prestigious business platform by the International Association of Webmasters and Designers that can potentially improve international businesses operating in the country.

discuss the HR practices in the country of Jordan and the key issues that determine HRM functions.

1.6.1 Recruitment and Selection

DeCenzo and Robbins (2005) define recruitment as the process of generating a large pool of applicants and accordingly filtering them by selecting qualified applicants. Selection, on the other hand, is the process of conducting employment tests, interviews, employee investigations, and other examinations in order to select a qualified employee. In actual fact, the process of recruitment and selection in the country of Jordan and many other Arab countries is not a completely objective process, and it is never entirely based on skills, competencies and merit (Budhwar and Mellahi, 2006). In other words, posts or vacancies in companies are usually filled by relatives, friends or connections of existing employees; in most cases, such issues are given priority over the qualifications, experiences, competencies or whatever is needed for the vacancy (AL-Rasheed, 2001). Accordingly, this HR practice is mainly influenced by the culture of the country where favouritism, nepotism and tribalism play a big role in such issues. Furthermore, it has been argued in the literature that the main causes of high transaction costs in Jordan are tribalism and the involvement of interpersonal relationships in the workplace (El-Said and McDonald, 2001).

In this context, Mohammad (2011) conducted a study to analyse the best human resource management practices at ZAIN (one of the biggest and most developed cellular communications companies in Jordan). He found that recruitment and selection practices in ZAIN are marked by important job security, a behaviour-based selection process, the effects of interpersonal relationships and nepotism, importance of education, and entitlement and implicit criteria. Such findings support what has been said earlier on about the effects of the culture on HR practices in Jordan. However, it can also be noted that there are still some other good criteria to be applied when companies recruit and select their employees. This view is further strengthened by the findings of a study conducted by Altarawneh and Al-Kilani (2010) in the Jordanian hotel industry. The authors have found that, in the surveyed companies, there is a robust level of investment in HRM practices. According to the authors, the explanation for this level of investment in HRM practices in the surveyed industry

could be that the Jordanian government, as represented by the Ministry of Tourism and Antiquities, supports and encourages this industry to achieve and provide a high quality standard of services.

1.6.2 Training and Development

Training and development can provide and develop employees' skills, abilities and behaviours, and accordingly motivate them to apply such skills and behaviours in their work-related activities; in turn, this may improve output and increase organisational effectiveness and performance (Way, 2002). Such practices can be a source of competitive advantage in various industries (Pfeffer, 1998). Examples of employees' training programmes include job rotation, understudy assignment, classroom lectures, formal instructions within the company, films and videos, simulation exercises, and vestibule training (DeCenzo and Robbins, 2005).

The government of Jordan has introduced a number of initiatives for the purpose of providing and ensuring training for as many citizens as possible; additionally, two decades ago, the Jordanian Institute of Public Administration (JIPA) created the National Training Plan to train and develop employees so they are well prepared to work in the public sector and face the challenges resulting from the economic reforms at the national and international levels (Budhwar and Mellahi, 2006). It supposed that such a plan would change the behaviours, thoughts and attitudes of the public sector employees to respond to the demands of the free-market economy. This plan has covered all employee levels and types in all areas and institutions. Furthermore, another important training plan introduced between 1997 and 2001 by the Jordanian Institute of Public Administration is the Career and Training Paths Project (Budhwar and Mellahi, 2006). The aim of this training programme is to institute a culture of ongoing training in the public sector companies. In addition to that, many other public and private companies, centres, institutions and universities now provide training and special courses for all types and levels of employee. Some of these institutions and companies are Jordanian and others are foreign companies which have branches in the country.

We have a strong interest in training in the present research as the majority of the

studies conducted in relation to the HRM-performance link have considered training in terms of the HR practices mixtures (Pfeffer, 1998). Empirical results have confirmed the crucial role of training in various organisational outputs. For instance, Guthrie (2001) states that training is negatively associated with employee turnover, with Kalleberg and Moody (1994) similarly emphasising that training has a positive impact on organisations in terms of product quality, product development, market share and sales growth. Arthur (1994) also indicates that the greater the investment in training, the lower the degree of turnover. In the context of Jordan, Mohammad (2011) found high levels of training and development in ZAIN Telecommunications Company, which increased employees' job involvement.

Although Jordan is considered an educated society, there is indeed still a need for more formal training programmes to be conducted by the public sector in particular in order to prepare employees to face any challenges in the near future, and also to support the country in terms of its knowledge-based economy. Considering that Jordan is one of the smallest economies in the Middle East, with limited water supplies, oil, gas, and other natural resources, the human resources of the country should play the major role in order to face and cope with the future challenges and circumstances.

1.6.3 Incentives, Rewards and Employee Relations

As argued in the expectancy theory (Vroom, 1964), if organisations provide their employees with the rewards they expect and desire, the employees will then perform their jobs in such a way that will bring them these rewards. Incentives and rewards are very important drivers for employee behaviours and motivations. This is one of the most important HR practices, helping to make employees feel satisfied and perform better within their organisations. Incentives and rewards include, for example, promotions, pay increases, appreciation for good efforts, valuable fringe benefits, interesting and challenging work, job security and prestige of work. Jordanian companies in general provide their employees with such incentives and rewards in order to encourage them to perform better. Most companies in Jordan have different categories of incentives and rewards such as promotions, pay increases, bonuses, and letters of appreciation for good-quality output and efforts. Managers strongly believe that such practices motivate employees and persuade them to stay with their

companies longer. In addition, such a process is usually linked with companies' appraisal systems. For instance, most banks in Jordan ask every unit or department manager, on an annual or biannual basis, to evaluate his/her employees; then, according to the evaluation outcomes, they will receive their rewards.

With regard to employee relations in Jordan, employees have the right to form and involve themselves in trade unions. However, as is the case in many other less developed countries, the lack of working-class awareness and the inadequate militant labour organisations have led to the underestimating of the power of the trade unions and to the employees being controlled by their management; in addition, the activities of the trade unions are limited by law and regularly monitored by the State. It has also been noted that the employer-employee relationship is generally directed by written and unwritten rules (Budhwar and Mellahi, 2006). Written rules are imposed by the government, whilst the unwritten rules stem from the norms, behaviours, rituals and attitudes of society. The latter are largely affected by the cultural aspects that we have already discussed earlier in this chapter. For example, it is culturally ingrained that the manager is supposed to protect and defend his/her employees in most cases, whilst those employees have to show commitment and loyalty to their managers in return. Written rules, on the other hand, are left for the government to decide. For instance, the government makes decisions on all aspects of pay for all types and levels of employees in all industries; salaries are usually decided based on the job, age and position (Budhwar and Mellahi, 2006). Nevertheless, different payment systems have been created recently as a result of the latest changes in the country such as the increased amount of foreign investment and the entry of well-known international companies to Jordan. Such companies will gladly pay much more in certain cases in order to attract and keep the good employees.

1.6.4 HRM Challenges in Jordan and Future Developments

Jordan is facing important challenges at the national level. According to Budhwar and Mellahi (2006), the key challenges that Jordan has to consider are as follows:

1. Given the current situation in the Middle East, and also the possible negative impacts from the West due to the financial crisis, the country has to sustain the

stability of the region. Focusing on the human resources in the country would support the overall economy and help Jordan to overcome some of the difficulties that the country may face in the future.

2. As Jordan is one of the smallest economies in the Middle East, with limited water supplies, oil and gas, and a lack of other natural resources, the country has to thoroughly develop and sustain its knowledge-based economy. There is now an evolving belief that, if organisations wish to survive and compete in the present-day knowledge-based global economy, they have to acquire, develop, and accordingly manage world-class human resource competencies and practices (Pfeffer, 1994, 1998; Schuler and Jackson, 1999; Khandekar and Sharma, 2005; Moideenkutty *et al*., 2011).

3. It is also important that the country develop and implement plans to reduce the level of unemployment, and to conserve social harmony among the citizens of Jordan.

4. The country suffers in terms of its IT infrastructure. There is a need in Jordan for sophisticated ICT advancements to support the development of a competitive IT industry; accordingly, this will bring new businesses into the country and attract foreign investment.

5. More serious investment in education, training and development of Jordanians is another of the most important challenges facing the country in the future. In addition, it is very important to increase the overall wage level in the country since most of the highly-skilled and experienced workers immigrate to the neighbouring countries where they can find much better wages and working conditions.

According to the main economic indicators, the recent reforms of the Jordanian economy have so far been successful; however, their impacts on Jordanians have yet to become visible since the rate of unemployment remains high and poverty is still one

of the main concerns in Jordan (Budhwar and Mellahi, 2006). Furthermore, all the aforementioned cultural aspects (e.g., tribalism, nepotism, favouritism) still have to be resolved as they are continuing to negatively impact on the development of human resource management practices and policies in the country. Finally, as stated earlier in this research, Jordan has opened its market to the businesses and investments from within the country and overseas, and has thus developed to play an important role in the international and global market, thereby adding value to the need for more information with respect to human resource management. Selecting the context of Jordan to accomplish the purpose of the present research has important implications at the theoretical and practical levels. Therefore, this research is expected to contribute to the HRM literature and, in particular, to the Jordanian context in the issues of human resource management and development.

1.7 Rationale for the Context and the Industry

Firstly, this research is conducted in a different context as almost all previous studies on the HRM-performance link have been conducted in either the US or the UK. This is one of the few works carried out in a non-Western context, and the only one in the context of the country of Jordan.

Secondly, the economic and political stability and safety of Jordan encouraged us to undertake this research in the context of the all-important financial sector. The country has been recognised as a leading Arab nation, ranked in the upper quartile worldwide in the AT Kearney 2007 Globalisation Index, which measures economic, personal, technological and political integration in the wider world (The Globalisation Index, 2007). The country has been ranked above the world average in terms of fiscal and monetary freedom, property rights, and freedom from corruption. In addition, the Economic and Commerce Bureau (ECB) in the US identifies Jordan as a stable, open, and safe country in comparison to many of its neighbours. Furthermore, the ECB provides a platform for American businesses to make the most of economic opportunities in the country of Jordan, promoting Jordan's status in the Middle East as a beacon of political and economic stability and growth, harbouring a safe environment for foreign investment. Hence, it attempts to serve as a useful resource for those who may be interested in conducting business with the country.

Thirdly, Jordan has opened its market to the international trade and investment and has thus grown to be a credible player in the international and the global market, thereby contributing to the need for more information concerning the management and human resource practices. Selecting Jordan to fulfil the purpose of the present research has important implications at the theoretical and practical levels. The country represents a significant regional economy with a strategic location, a relatively small population, and limited resources, thus requiring careful investment. Therefore, this research is expected to contribute to the HRM literature and, in particular, to the Jordanian context, where there is a desperate need for more research work to be conducted in such a country (Altarawneh, 2009).

With regard to the financial sector of Jordan, there are some important issues which encouraged us to conduct the current research in this sector in particular. These issues as follows:

1. It needs to be emphasised that most previous studies have been carried out in the context of the manufacturing sector as opposed to the services sector (Mohammad, 2011). The services sector worldwide is growing at a much faster rate than the manufacturing sector (World Investment Report, 2011).

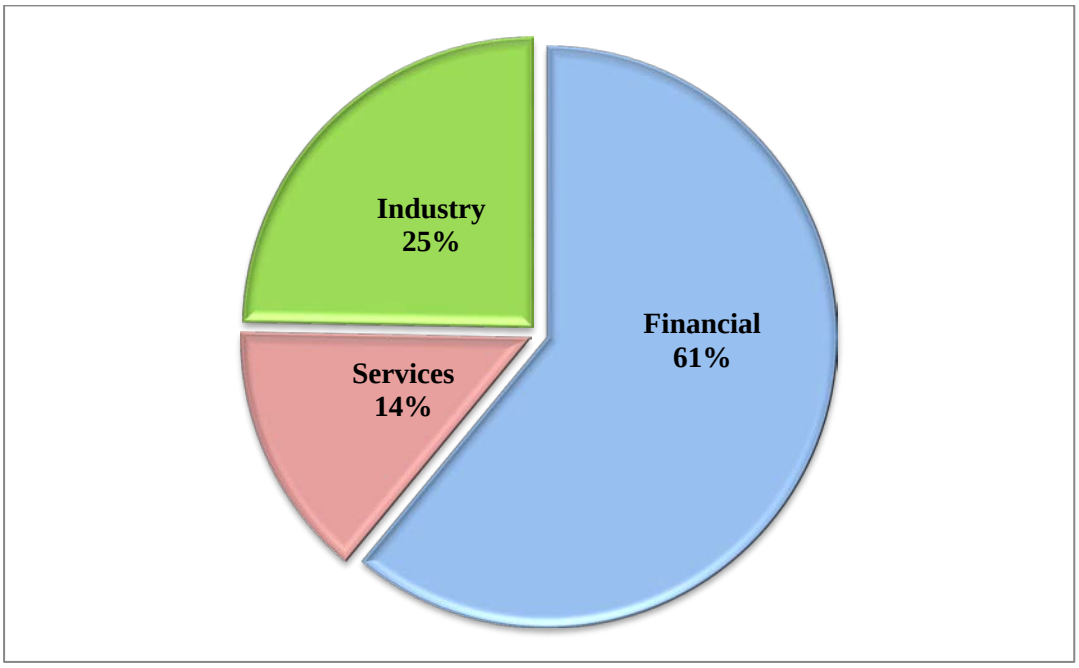
2. As is the case with other countries, in Jordan, the financial sector occupies a prominent position within the services sector; this sector is one of the largest and best developed services sector in the country, and is witnessing a great deal of deregulation, which is notably attracting private investment from within the country and overseas.

3. It has been reported that Jordan's financial sector has been comparatively isolated from the international financial crisis because of its limited exposure to overseas capital markets (The World Fact Book, 2009).

4. The financial sector also compromises the highest percentage of total GDP compared with other sectors in the country. In this vein, it is noteworthy to

highlight that the financial sector is the largest in Jordan, with a market capitalisation amounting to JD 15.5 billion or 61% of the total market, followed by the industry sector with JD 6.3 billion or 25% of the total market, and the services sector with JD 3.7 billion or 14% of the total market. Figure 1.3 shows the market capitalisation for the main sectors in ASE.

Figure 1.3: Market capitalisations of listed firms on ASE in 2008



Source: ASE market data

5. The importance of HRM practices vary from one sector to another. Since the companies that operate in the financial services highly rely on some unique and elevated skills, talents, and competencies, HR practices (e.g., recruitment, training and development, rewards and incentives) can absolutely make a difference in such companies, add a great value to their outcomes, and help them to achieve their objectives.

6. Several authors (for example, Altarawneh, 2009; Mohammad, 2011) have urged scholars to look closely at HR practices within this sector with the belief that modern day HR directors are an important driver in firms' quest to gain

increasing competitive advantage and contribute to a growing economy. The financial sector in Jordan includes banks, diversified financial services companies, insurance companies, and real estate companies.

1.8 Research Methodology

The target population of this research is the financial sector of Jordan. A count of all the firms operating in the financial sector revealed a population of 104 firms in banking, insurance, real estate, brokerage and other financial services. The unit of analysis is the organisation, and the targeted respondents were HR directors. These firms are all listed on ASE. The researcher decided to approach all firms in the population for the purpose of data collection.

The current research employs a combination of primary and secondary data to achieve the objectives of the study. In the case of primary data, a survey method is employed, which is recognised as one of the most commonly utilised methods for data collection using standardised measurement tools. The questionnaire includes sections on the role of HR director, HR practices, strategic HR involvement, HR devolvement, employee turnover, and perceived organisational performance. The financial secondary data for matching companies who responded to the questionnaire were collected from ASE database.

There are two main types of HRM-performance research design: cross-sectional ones are those wherein both predictors and outcome variables are measured on one occasion only; in the case of longitudinal studies, either or both the predictors and outcome variables are measured on at least two occasions (Wall and Wood, 2005). Both types of research design are considered to be of value. Cross-sectional research is beneficial in terms of cost and time starting point for establishing that two or more variables are related, and in the case of the absence of a cross-sectional relationship, this would send or indicate warning signals that more costly longitudinal work might not be justified (Wall and Wood, 2005). With this in mind, the majority of HRM researchers have conducted cross-sectional design in order to test such a relationship (see, for example, Arthur, 1994; MacDuffie, 1995; Delaney and Huselid, 1996; Wright *et al*. 1999; Bae

and Lawler, 2000; Way, 2002; Datta *et al*., 2005). Following this work, we consider the design of the current research as cross-sectional design.

1.9 Structure of the Thesis

This thesis is structured in seven chapters as follows.

Chapter One provides the introduction to the thesis. It presents the research problem statement and research question, research aim and objectives, statement of significance, a country profile and rationale for the research context, and the research methodology.

Chapter Two covers the literature review. It explains the theoretical and empirical aspects of the concepts of HRM and organisational performance, and reviews and critically discusses the previous studies concerning the HRM-performance link. Additionally, it considers the core aspects and main theoretical approaches of SHRM and the way in which it is different from the traditional HRM. Furthermore, it highlights the relationship between SHRM and the resource-based view theory and the role of the HR director.

Chapter Three considers the theoretical framework and the hypotheses development process. In order to conduct a study relating to the HRM-performance link or to otherwise develop a prediction in this research stream, two main steps needed to be taken into account. First, the significant HR practices should be identified, and the argument that these individual HR practices are linked to organisational performance should be presented. The chapter identifies which HR practices are used in this research, and also clarifies how such practices are positively and strongly linked with different organisational outcomes. It also provides the theoretical and empirical justifications from HRM literature before deducting each hypothesis, and finally presents the theoretical framework of the current research.

Chapter Four presents the research methodology and the design applied throughout the research. Additionally, it explains the main methods used for data collection and the major issues related to the main research instrument, such as survey development,

pilot study, and survey administration procedures. It also discusses the population and sampling issues, the measurement of the research variables, the software packages, and the statistical techniques employed in this research, as well as the key ethical issues.

Chapter Five explains the data preparation approach and demonstrates the process of screening and cleaning up the data as an important step prior to testing the research hypotheses. In this chapter, we assess the effects of missing data, identify outliers, and examine the main assumptions underlying most multivariate techniques, such as normality, linearity, multicollinearty and homoscedasticity. In addition, two types of factor analysis are conducted. Exploratory factor analysis is employed to define and understand the underlying structure amongst the research variables. Confirmatory factor analysis is also used to test the goodness of the data and the variables' unidimensionality in terms of construct reliability and validity.

Chapter Six presents the process of hypotheses testing. The research hypotheses are tested with the help of descriptive and inferential methods, primarily multiple regression analysis.

Chapter Seven reviews and discusses the research results and describes the theoretical, managerial and methodological implications drawn from this research. It also states the overall contribution in terms of the SHRM-performance debate, research limitations, and future research directions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter comprises nine sections: the second and third sections discuss the concepts of HRM, SHRM and organisational performance. The discussion in these sections is intended to serve as a backdrop for discussion in subsequent sections. The fourth section reviews and critically discusses the previous studies into the HRM-performance link. Sections five and six consider the core aspects and main theoretical approaches of SHRM, whilst the seventh section highlights the relationship between SHRM and the resource-based view of the firm. Section Eight discusses the role of the HR director and the way in which it is related to SHRM theory. Finally, a summary of the chapter is presented in the last section.

2.2 Human Resource Management

Human resource management (HRM) is still a relatively immature field, which has moved through a rapid evolution and development. As the literature would show, there is, as yet, no consensus on the definition of HRM (Paauwe and Boselie, 2005; Collings and Wood, 2009; Paauwe, 2009). Some authors have focused on the HR department effectiveness (Teo, 2002), whilst others have focused on HRM in terms of skills, knowledge and competencies (Hitt *et al*., 2001). The majority of studies and books in the field of HRM have defined the concept in terms of individual or a group/bundle of practices. According to Noe *et al*. (2006), HRM refers to the practices and policies affecting employees' behaviours, attitudes and performance. They have focused on several important practices, which in turn, could positively impact organisational performance, such as HR planning, recruiting, selection, training and development, compensation, performance management, and employee relations. Furthermore, Way (2002) has considered the following practices as the most applied practices in the literature: staffing, compensation, flexible job assignment, teamwork, training and communication.

In addition, the majority of the empirical work conducted in regard to the HRM-performance link has given afforded attention to the sixteen best human resource management practices proposed by Pfeffer. Indeed, the argument behind such practices is the greater the use of sixteen practices, such as training and skill development, promotion from within, participation and employment and information sharing, the greater the productivity and profitability across all organisations—regardless of their contexts and conditions (Pfeffer, 1994). In his article 'Seven practices of successful organisations', Pfeffer reshapes these practices into seven HRM practices; these practices are expected to enhance organisational performance and enable the organisation to gain a competitive advantage (Pfeffe, 1998). Such practices are detailed as follows:

1. Employment security.
2. Selective hiring of new personnel.
3. Self-managed teams and decentralisation of decision making as the basic principles of organisational design.
4. Comparatively high compensation contingent on organisational performance.
5. Extensive training.
6. Reduce status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels.
7. Extensive share of financial and performance information throughout the organisation.

However, different studies have utilised different HR practices when examining the impact of HRM on organisational performance, and as the literature shows, it is rare to find two studies that have used the same HR practices. As a result, one of most important gaps in this research stream is that there is no consensus as to what combination of HR practices is able to enhance organisational performance (Becker and Gerhart, 1996; Dyer and Reeves, 1995; Wright and Gardner, 2003; Beltran-Martin *et al*., 2008; Paauwe, 2009; Guest, 1997, 2011). Even if researchers have employed the same practices, the underlying meaning of the practice may be completely different. As a result, there is a call for a specific theory on HRM (Paauwe and Boselie, 2005; Paauwe, 2009; Janssens and Steyaert, 2009; Guest, 1997, 2011), and thus

researchers and practitioners have been urged to give particular attention to fulfil this gap.

2.2.1 Strategic Human Resource Management

Within the last couples of decades, significant contributions have been well documented in the literature, dealing with issues related to the management of people. HRM has received much attention as a distinct approach to managing employees both effectively and efficiently. However, Delery and Doty (1996) criticise the initial research in the field of HRM as 'micro analytic' as it focused on specific issues and effects on organisations. During the last decade, researchers have produced a new generation of theoretical and empirical work linking human resource management with business and corporate strategies and measured its impact on the overall organisational performance level and not only on employees' performance level. As a result, the current interest in SHRM has been developed amongst researchers in the field.

In spite of the growing thoughts and attentions afforded to SHRM, the concept, to some extent, remains vague and unclear. SHRM has been defined as 'the pattern of planned HR deployments and activities intended to enable the organisation to achieve its goals' (Wright and McMahan, 1992, p. 298). Likewise, Wright and Snell (1991) define SHRM as 'organisational systems designed to achieve sustainable competitive advantage through people'. Ulrich and Lake (1991) describe SHRM as a process wherein HR practices and business strategy are linked. More generally, Truss and Gratton (1994) define SHRM as the alignment of HRM with strategic goals and objectives so as to perk up organisational performance and thereby promote an organisational culture that fosters innovation and flexibility. Regardless of the absence of precise and clear definition of SHRM, its essential core idea is to link and integrate the HR function with the overall strategic direction of the organisation to improve organisational performance and thus gain a sustainable competitive advantage.

In addition, many researchers criticise the foundation of SHRM theory and have accordingly called for new formulation of the theory. Indeed, two main reasons behind

this criticism are, firstly, as stated earlier, HRM is continuing to face criticisms surrounding its theoretical foundation, and so it is not surprising that SHRM has a poor theoretical building as it has been building on the HRM theory; and secondly, as recognised by Delery and Doty (1996), the SHRM field has been approached from the perspective of numerous theories, such as, for example, resource-based view of the firm, contingency theory, human capital theory, resource dependence theory, and behavioural theory, thus lacking emphasis on the differences within such theories.

2.2.2 The Departure from HRM to Strategic HRM

The underlying logic behind HRM and firm performance is the belief that a fundamental strategic shift has taken place in the field of HRM which is causing firms to perform better. Authors distinguish traditional HRM from SHRM in two important ways (Delery and Shaw, 2001; Brian and Huselid, 2006). First, SHRM focuses on an organisational performance level rather than on an employees or individual performance level. Recently, many studies into HRM-performance link have been focused on organisational and financial performance indicators rather than employees' behavioural indicators. For instance, those studies measured firms' performance by profit, market share, quality and product development, return on investment, and return on assets; hence, the strategic perspective in HRM is looking at business, firm or the whole industry level, which has made the field more attractive and important than how it was before.

Second, SHRM researchers have examined the impacts of HR practices as bundles or synergies of the whole HR practices on organisational performance, whilst traditional HRM has focused only on the impact of individual practices on employee performance. The logic behind SHRM theory is that the HR system is the appropriate level of analysis when researchers seek to examine the effect on firm-level performance (Delaney and Huselid, 1996). In addition, HR, as systems or bundles, must generate greater effects than the individual human resource practices, simply because the whole is greater than the sum of its parts and, as suggested from Barney (1995), individual HR practices are limited in terms of gaining a competitive

advantage in isolation. Table 2.1 summarises the main points of departure of SHRM from HRM as seen in the literature.

Table 2.1: The transition from traditional HRM to strategic HRM

	Traditional HRM—(Micro HRM)	**Strategic HRM—(Macro HRM)**
Level of Analysis (Delery and Shaw, 2001; Brian and Huselid, 2006).	Individual, team or group level (for example, studying the effects of recruitment, selection, incentives and training on the employees' or teams' performance.	Business unit / organisation level / industry and country level.
HRM practices (Barney,1995; Delaney and Huselid, 1996;Delery and Shaw, 2001).	Studying the impact of the individual HRM practices.	Studying the impact of the whole HRM practices as bundles or complementarities of practices.
Performance (Dyer and Reeves, 1995; Brian and Huselid, 2006)	Individual employees' performance (for example, job satisfaction, absenteeism, retention, employees' commitment).	Organisational level (productivity, financial and market indicators.
Type of Fit (Huselid, 1995; Becker and Huselid; 1998; Way, 2002; (Noe *et al*., 2006)	Person-environment fit. Person-organisation fit.	Internal or horizontal fit. External or vertical fit

Source: Developed by the author

2.3 The Concept of Organisational Performance

Organisational performance is one of the most broadly and extensively used dependent variable in organisational studies today, and yet, at the same time, this construct remains one of the most imprecise and loosely defined constructs (Rogers and Wright, 1998). In the strategy literature, the focal point of attention on this construct has been almost completely on financial measures of performance (Rowe, Morrow and Finch 1995). Conceptually, organisational performance has been defined as the comparison

of the value produced by a company with the value owners expected to receive from the company (Alchian and Demsetz 1972). Venkatraman and Ramanujam (1986) indicate that a narrow definition of performance 'centres on the use of simple outcome-based financial indicators that are assumed to reflect the fulfilment of the economic goals of the firm' (1986, p. 803).

For many years, researchers have been struggling to establish a clear and precise meaning for organisational performance, which is not only limited to the field of human resource management but also to many other fields (Rogers and Wright, 1998). For instance, in his review for the measures of organisational effectiveness, Scott concludes the following: 'After reviewing a good deal of the literature on organisational effectiveness and its determinants, I have reached the conclusion that this topic is one about which we know less and less' (1977, p. 63).

The literature reveals that studies into the HRM-performance link have, as yet, not reached a specific and precise meaning for organisational performance construct. Some studies have used subjective measures to evaluate firms' performance, such as employee satisfaction, customer satisfaction, executives' perceptions about the company's performance, absenteeism, employee commitment and other behavioural aspects. Other studies reference various objective measures for evaluating firms' performance, such as financial and market indicators. As a result, there is no common theory concerning organisational performance, and researchers utilise different indicators or variables for measuring this construct. For this reason, there is also a call for a precise theory on organisational performance (Paauwe and Boselie, 2005; Janssens and Steyaert, 2009; Guest, 1997, 2011), and HRM researchers and professionals could give a crucial and special consideration to mend such a gap.

In the case of HRM-performance research, the performance outcomes of HRM can be viewed in different ways. HRM researchers have mostly afforded attention to Dyer and Reeves' (1995) classification of the performance outcomes as follows:

1. HR-related outcomes, such as turnover, absenteeism, job satisfaction, commitment

2. Organisational outcomes, such as productivity, quality, service, efficiencies, customer satisfaction
3. Financial accounting outcomes, such as profits, sales, return on assets, return on investment
4. Capital market outcomes, such as market share, Tobin's q, stock price, growth.

Researchers have held various different points of view and theoretical perspectives when dealing with such a classification. Notably, some HR scholars have directly measured the impact of human resource practices on financial or market outcomes without consideration to organisational and HR-related outcomes. On the other hand, others have measured the impact of HRM practices indirectly through the HR-related and organisational outcomes. In actual fact, Dyer and Reeves (1995) propose that HR strategies would most probably do directly affect the HR-related outcomes, followed by organisational, financial and market outcomes. The logic behind this is that HR practices have their most direct impact on employees' behaviours and attitudes which, for example, will result in low turnover rate and higher satisfaction, which in turn would generate high organisational and financial outcomes. This issue will be discussed in detail in the next section, which is the HRM-performance link.

Some authors, such as Paauwe and Boselie (2005), emphasise the multi-dimensional concept of organisational performance in the case of future HRM-performance research. This concept means that researchers may use multiple measures of performance to cover the multiple goals of HRM, and the different parties that have been involved within or outside the organisation. In addition, they have asserted on the role of financial measures as strong indicators for organisational performance.

2.4 Human Resource Management and Organisational Performance

The theoretical and empirical work on the added value of HRM/SHRM, also known as HRM-performance link or HRM and performance debate, demonstrates the significant effects of HRM on organisational performance. Nevertheless, there remains a need for additional studies to support and sustain the HRM-performance link (Boxall and Purcell, 2003; Gerhart, 2005; Guest, 1997, 2011) and there is also a

need for more empirical work from different angles (Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007; Guest, 2011). This section illustrates and explains the nature of the linkage between HRM and organisational performance. Additionally, it reviews and critically discusses the previous theoretical and empirical work on HRM-performance link.

2.4.1 The Nature of the HRM-Performance Link

Since the notion of the HRM-performance link has emerged, two paths of research stream have been developed to examine the relationship between HRM and performance. The first is based on the direct relationship between individual HR practices and/or bundles or systems of practices and organisational performance (Schuler and Jackson, 1999; Chand and Katou, 2007). The second research stream is based on the indirect relationship between individuals HR practices and/or bundles of practices and organisational performance (Wright and Gardner, 2003).

2.4.1.1 The Direct Relationship between HRM and Performance:

Studies on the HRM-performance link suggest specific HR practices that can lead to competitive advantage and, as a result, can enhance organisational performance (Pfeffer, 1994; MacDuffie, 1995; Huselid, 1995; Delaney and Huselid, 1996; Guest, 1997; Ahmad and Schroeder, 2002; Guest *et al*., 2003).

These specific practices, geared toward helping firms achieve better results, have been assigned different terms by different researchers, such as ‘best practices’ (Pfeffer, 1994), ‘high performance work system (HPWS)’ (for example, Huselid, 1995; Becker and Huselid, 1998; Way, 2002; Datta *et al*., 2005; Beltran-Martin, 2008; Guthrie *et al*., 2009), ‘high-involvement practices’ (for example, Lawler, 1986; Guthrie, 2001; Wood and De Menezes, 2008), and ‘high commitment practices’ (for example, Arthur, 1994; Wood, 1996; Wood and De Menezes, 1998). The relationship between the above different terms and SHRM is simple. As it investigates such terms (e.g., high-involvement practices), this work can be considered to belong to the area of SHRM for two main reasons or conditions: first, these terms usually link the HR practices

directly with the overall performance of the companies; second, the 'high-involvement work practices' or 'high-performance work systems' measure HR practices as complementarities (the horizontal fit) of practices. These two conditions are the main principles of SHRM when we distinguish it from the traditional HRM (see section 2.2.2). However, all the above terms are different in terms of the HR practices they include since any combination of HR practices essentially encompasses an element of selectivity (Guest, 1997; Brewster *et al*., 2008). Importantly, researchers can still use the term 'high-involvement work practices' in different studies, grouping different HR practices under the same term. Accordingly, it is preferable for researchers to only use the term SHRM instead of confusing the readers with other different terms as long as they all mean the same and end in the same direction. Regardless of the terms given to different sets of HR practices, all have the same notion which is that such specific HR practices will lead to better organisational performance in any context. In other words, a particular set of HR practices can improve organisational performance for all organisations—regardless of the industry and environment or context. In actual fact, some researchers supporting such approaches have highlighted various positive effects of HR practices on organisational performance, as would be seen later in the section on 'previous studies into HRM-performance link'.

Some researchers have examined the impact of individual HR practices on organisational performance, whilst others have examined the bundles or complementarities of the whole HR practices on performance. The logic behind the bundling notion is that HR as system or a bundle of practices is the appropriate level of analysis when researchers want to examine the effect on firm-level performance (Delaney and Huselid, 1996). Thus, as suggested by authors who adopted this approach, HR as a system or a bundle should generate greater effects than the individual human resource practices, simply because the whole is greater than the sum of its parts. For instance, recruitment and selection of good employees without training them, or train and develop them without giving them the authority to take decisions, may produce smaller effects; whereas implementing the three practices together might produce more effects (Wall and Wood, 2005). Barney (1995) argues that the individual HR practices are limited in their impacts to gain competitive advantage for firms.

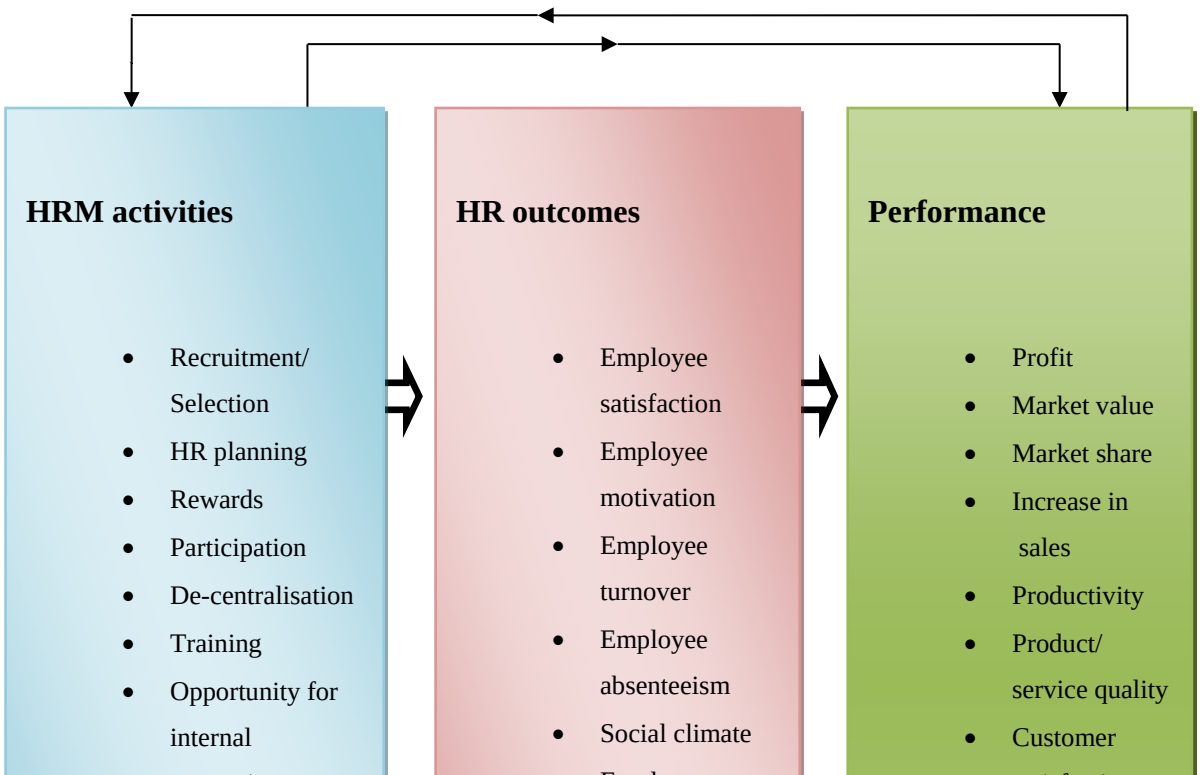
Regardless of the progress achieved by researchers thus far in terms of measuring the HR practices, as stated previously, there is no consensus amongst researchers on what such practices could be or the number of practices that could enhance organisational performance (Dyer and Reeves, 1995; Becker and Gerhart, 1996; Wright and Gardner, 2003; Beltran-Martin *et al*., 2008; Brewster *et al*., 2008; Guest, 2011). They only agree that such practices will lead to better performance for all types of organisations.

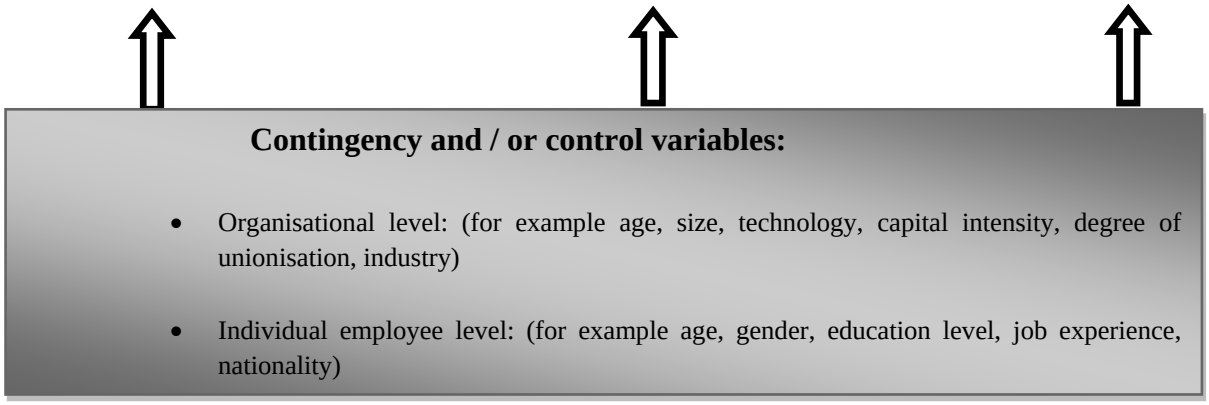
2.4.1.2 The Indirect Relationship between HRM and Performance

In the second path of this research stream, researchers have criticised the way in which HRM impacts on organisational performance, arguing that whether individual or in a bundle, HR practices do not directly affect firm performance (Katou and Budhwar, 2006). Moreover, HR practices could directly impact some mediator variables which, in turn, affect firm performance; this is what can be termed as the 'black box' in HRM-performance research. Some researchers have started looking and searching inside the 'black box' with a view to better understanding which HR practices would impact firm performance most significantly (for example, Way, 2002; Ahmed and Schroeder, 2003; Katou and Budhwar, 2006; Beltran-Martin, 2008). This addresses the call of some HR authors (for example, Dyer and Reeves, 1995; Becker and Gerhart, 1996; Wright and Gardner, 2003; Guest, 2011) for exploration into a new theoretical framework with different mediating variables. They have called upon researchers on HRM to conduct studies on the 'black box' to find an effective HRM-performance link mechanism that can help academics and professionals to clearly understand the relationship between HRM and organisational performance.

Figure 2.1 provides a visual representation of the most important variables that could be involved in the HRM-performance mechanism. Given the complexity of this relationship, it is not a surprise that researchers have recommended for additional studies to explore the HRM-performance link (Boxall and Purcell. 2003; Gerhart, 2005; Paauwe, 2009; Guest, 2011), and more empirical work from different angles (Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007).

Figure 2.1: HRM activities, HRM outcomes and performance





Source: Paauwe and Richardson (1997)

Notably, looking the previous figure, it can be noticed that it did not take into consideration the possible impacts of the external factors on HRM-performance relationship. All the factors mentioned in Figure 2.1 can be considered as internal factors. Although external factors can have considerable impacts especially on the performance of the companies, previous studies have largely focused on the internal factors when investigating the HRM-performance relationship. Furthermore, although a number of measures have been suggested for measuring organisational performance, in actual practice, measuring as to what actually contributes to performance is fraught with difficulties. Internal variables include a host of factors, such as employee satisfaction, employee commitment, employee motivation, R&D, leadership, employee turnover, and social climate. The positive outcomes of HR practices are displayed, for instance, in the increased motivation and commitment, thus resulting in

lower employee turnover, which in turn could result in higher organisational performance. Additional internal factors that are usually taken as given or sometimes included in the studies are the age, industry and the size of the organisation.

External factors, on the other hand, include two sets of variables – one which is specific to an organisation, including demand condition for its product, market structure, and competitive environment in which it operates, and the second comprising national and institutional factors, including political, economic, social, and technical environment, financial and real regulation, antitrust laws, industry incentives, free trade, foreign investment, and macroeconomic policies. External variables not specific to an organisation are symmetrically distributed in the sense that they apply in equal measures to all the organisations, and can be taken as given in any study (under the ceteris paribus clause). Internal factors vary from one organisation to the next, and are not easily visible to outsiders. Importantly, a cluster of these variables form the contents of the black box and impact on the profitability of the organisation. It is these, not completely visible internal factors which cause persistent profit differentials that are the subject of much research in understanding the performance of competitively advantaged organisations; however, despite best efforts, as yet, approximately 40 per cent of the variation in profit differentials remains unexplained (Rumelt, 1991; McGahan and Porter, 1997). Owing to the difficulties in capturing the degree of its effect, researchers in Economics and Strategy fields did not include the internal factors in their studies on profit variations amongst organisations. This was a field left open for HR specialists to fill in, and who implicitly theorised that the imaginative application of HR practices can result in improved performance for the organisation, and that this can shed light on the unexplained variance in equations. Our review of studies in the HRM-performance field shows that HR specialists have only been partly successful in their endeavours. Given the complexity of the ever-changing internal and external environment – often the latter also impacting on the former – the partial success of HR specialists is not difficult to explain.

In an ideal situation, in order to accurately measure the effect of HR practices on performance, the individual effect of all the internal and external factors, should be taken into account. In a multivariate equation approach, for example, the size and sign

of coefficients would tell us the importance, or lack thereof, associated with each factor's effect on performance. However, given the number of practical difficulties, it is not possible to measure the effect of all internal and external factors on organisational performance. The most important of these difficulties, clearly, is the availability of reliable data pertaining, particularly, to external factors. As a result, studies relating to the effects of HR practices on organisational performance are conducted under the implicit assumption of the ceteris paribus clause. What this clause means is that, owing to external factors (such as the macroeconomic policies of a country, for example), all firms are impacted in a symmetric way, with their overall impact taken as constant for all firms. With the implicit declaration of this clause, researchers can focus on measuring the effects of only the internal policies on performance. In this regard, one could argue that, by doing so, researchers implicitly subscribe to the notion that measuring the effect of HR practices on organisational performance is an inexact science. However, because all firms are influenced in a similar manner by external factors, if the effect of all the internal factors on performance can be captured, which then provides a fairly good measure of the impacts of HRM practices on performance. However, upon closer examination, during the literature survey, it was discovered that most studies conducted on the HRM-performance nexus have not been able to take into account all internal factors. Secondly, in order for the results to be accurate, all firms in a particular sector should be accounted for, which often is not the case. Thirdly, the literature review also reveals that only a limited number of controls (firm size, age, etc.) have been included in the studies. A final associated point concerns the time factor, with most studies having been carried out at one point in time, therefore resulting in static analysis. In order to make the results dynamic, data for multiple years – at least the performance data – should be accounted for – even if the data on HR practices is collected at only one point in time.

2.4.2 Previous Studies on HRM and Organisational Performance

This section reviews the empirical work that has been done in HRM-performance link in three main themes; studies that show positive link on HRM-performance; studies

that show limited/partial link between HRM and performance; and studies that show little or no link at all.

2.4.2.1 Studies Showing a Positive Link on HRM-Performance

There are various studies that have successfully proven a strong positive impact of SHRM on organisational performance. For instance, Arthur (1994) investigated the impact of two contrasting types of HRM system on employees' productivity in steel mini mills in the USA. These two HRM systems were control and commitment (also termed 'HPWS') system. This study's results indicate that employees working under HR commitment system have higher productivity, lower scrap rates, and lower employee turnover when compared with those with control system. The study also states that the HR system could moderate the relationship between manufacturing performance and turnover. In another study on the US publicly quoted companies, Huselid (1995) evaluates the link between high performance work system and firm performance. A large number of HRM practices were used in this study. Results show that high performance work system incorporating these practices as a system or a bundle had an economically and statistically significant impact on both, the intermediate outcomes (turnover and productivity) and short- and long-term measures of financial indicators of the company (Tobin's Q gross rate of return on assets {GRATE}).

MacDuffie (1995) tested two main hypotheses that innovative HR practices affect organisational performance not individually but as a bundle or system, and that the HR bundles contribute to assembly plant productivity and quality. This study was conducted on international car assembly plants. Findings support both hypotheses. Such a study supports the argument of dealing with HR practices as system of practices instead of individual practices. What is more, Wright *et al*. (1999) posited concerning the role of HRM in terms of petro-chemical refinery performance, stating that individual HR practices are associated with firm performance. The study reveals that employee participation was related to employee performance, and they concluded that individual HR practices are strongly related to organisational performance when employee participation is high.

The impact of strategic human resource management on organisational performance was assessed by Green *et al*. (2006) on a sample of 269 large US manufacturing companies. The authors investigated the impact of SHRM approach on individual performance, organisational commitment and job satisfaction. Researchers considered that organisation exhibits SHRM when the human resources function is vertically aligned with the mission and goals of the organisation and horizontally incorporated with other functions of the organisation. The results of this study show that the direct effect of SHRM on organisational performance is positive and significant. Moreover, SHRM was found to both directly and positively influence individual performance, organisational commitment and job satisfaction.

In a sample of 439 hotels in India, Chand and Katou (2007) confirmed the impact of HRM practices on organisational performance. The results show that hotel performance is positively associated with the type and category of the hotel. The study also indicates that hotel performance is positively related to HRM practices. However, the sample for the study was not representative of the hotel industry in India as it had included only the best performing hotels in country. In addition to these positive results in this area of research, Karami *et al*. (2008) considered the HRM effects on the electronic industry in the UK. The main purpose of this study was to examine the impact of human resource capabilities and involvement on firms' performance in small and medium enterprises (SMEs). This study implemented an empirical survey to be filled by Chief Executive Officers (CEOs) to measure their perceptions of the HR involvement in strategy development in high-tech SMEs in the electronic industry in the UK, subsequently concluding that there is a statistical positive relationship between SHRM and perceived firms performance in high-tech SMEs in the electronic industry in the UK.

Guthrie *et al*. (2009) undertook a study in a multi-industry set of Irish-based operations. This study investigated the effects of high performance work system on the organisational outcomes in the Irish context. Results indicate that the greater the use of HPWS, the more positive human resource and organisational outcomes. More specifically, it has been shown that the greater the use of HPWS, the lower the rates

of absenteeism, employees' voluntary turnover, and lower labour costs. In another study, Lee *et al*. (2010) considered the HRM-performance link within the steel industry in Taiwan on a sample of 236 managers, and considered a number of HRM practices, such as training, compensation, HR planning and performance appraisals. Performance, on the other hand, was measured through perceptual measure. The study confirmed the positive impact of HRM practices on firm performance, and found that the integration between HRM practices with business strategies also has a positive effect on firm performance.

In another work, the relationship between HRM policies and organisational performance was tested by Katou and Budhwar (2010), targeting a sample of 178 organisations operating in Greek manufacturing sector. The results indicate that the impact of HRM policies on organisational performance is fully mediated by employee skills, attitudes, and behaviours. Resourcing and development, compensation and incentives, and involvement and job design were the main HRM policies used in the study. Performance, in contrast, was subjectively measured in regard to effectiveness, efficiency, innovation and quality.

Although all the aforementioned studies on the HRM-performance link have established positive links, they are different in the way in which they approach or deal with HR practices, organisational performance measures, and the mechanism of the link between these two variables. Further, regardless of the different approaches that have been used in research, we believe that the number of the studies that have proved the strong effects of HR practices on performance is still small.

2.4.2.2 Studies Showing a Limited/Partial Link on HRM-Performance

Delaney and Huselid (1996) examined the impacts of HRM on the perceptions of organisational performance in profit and non-profit US firms form the National Organisation Survey, and found various positive associations between HR practices, such as training and staffing, and perceptual firm performance measures. Training and incentive pay were associated with organisational performance, and staffing and selectivity with market performance. One of the most important studies in this area

has been carried out by Delery and Doty (1996), who conducted a study on the HRM-performance relationship in the context of US banks. This study has two important contributions into the field of HRM-performance debate: first, the study presents a theoretical foundation in the SHRM field, classifying three main theoretical modes in SHRM (universalistic, contingency and configurational); and second, the study tested the effects of such approaches on organisational performance. According to the universalistic framework, few of the HR practices (result-oriented appraisal, employment security and profit sharing) were significantly related to financial measures (return on average assets, return on equity). Regarding the contingency and configurational frameworks, these have been supported in relation to the financial measures but not as the financial variation resulted for the universalistic approach.

In a study of 319 business units, Koch and McGrath (1996) generated hypotheses derived from a resource-based perspective on strategy and subsequently established various positive effects on labour productivity as a result of organisations utilising more sophisticated human resource planning, recruitment, and selection strategies. Such results are particularly pronounced in the case of capital-intensive firms. In a slightly different work, a study of 293 US heterogeneous firms (for example manufacturing and finance) conducted by Huselid *et al*. (1997) highlight the impact of HR managers' capabilities in terms of HRM effectiveness, as well as the overall impact of HRM effectiveness on organisational performance (productivity, Tobin's q, and GRATE). The results indicate various positive relationships between HR managers' capabilities and HRM effectiveness, which in turn, positively affected organisational performance.

Ichniowski *et al*. (1997) investigated the productivity effects of innovative HR practices by gathering data from a sample of 36 homogeneous steel production lines in 17 companies. They measured four types of lines, each ranging from innovative HRM (high on training, employment security, incentive pay, selection, teamwork) to traditional HRM (low on the same practices). The productivity regressions demonstrate that lines using some of the innovative HR practices—which include high employment practices—achieve significantly higher levels of productivity than traditional HRM practices. In addition, they emphasise the importance of

complementarities or synergies amongst work practices rather than their individual effects. In a different industry, in his study entitled 'Human resource management and performance in the UK hotel industry' Hoque (1999) examined the relationship between HRM and hotel performance by using data from more than 200 hotels. The results show that the relationship between HRM and performance is dependent upon the hotels' business strategy. This study also indicates that hotels following a HRM approach coupled with a quality focus within their business strategy performed better than the others. Finally, HRM is more likely to contribute to competitive success only where it has been introduced as an integrated or bundles or systems of practices. As a result, this study supports the contingency approach and bundling of HR practices.

In the same year, Vandenberg *et al*. (1999) took a sample of 3,570 participants across 49 organisations and examined the impact of high involvement work processes on organisational effectiveness. The results demonstrate that a collection of organisational practices positively influence high involvement work processes; in turn, the high involvement processes have some positive impacts on organisational effectiveness (ROE and turnover). In this study, HRM dimensions were defined across five scales (flexibility, incentive practices, direction sharing, training, work design). In a similar work, Bae and Lawler (2000) studied the impact of human resource management strategies on organisational performance in a study of 138 Korean firms, and indicate that the high involvement HRM strategy had various associations with firm performance. The high involvement HRM strategy index covered training, empowerment, selection, performance-related pay, and broad job design.

Working on the same term, Guthrie (2001) tested the effects of high involvement work practices on employee turnover and productivity in a population of 701 private firms in New Zealand. HR practices included in this study were: internal promotions, performance based promotions, skill-based pay, group-based (gain-sharing, profit-sharing) pay, employee stock ownership, cross-training or cross-utilisation, average amount of training provided, training focused on future skill requirements, employee participatory programs, information sharing, attitude surveys, and use of teams. Main results indicate negative associations between some of the HR practices and employee turnover and positive associations with employee productivity. Furthermore, in the

study that looked specifically at the banking sector, Richard and Johnson (2001) examined whether strategic human resource management effectiveness significantly affects organisational performance. From the resource-based point of view, this study specifically focused on the effective use of human capital on organisational performance. Moreover, this study also moderated the relationship between HRM and performance by capital intensity. Results show that SHRM effectiveness has significantly reduced employee turnover and increased overall market performance assessment (ROE and productivity). SHRM effectiveness impacted both firm productivity and return on equity only when moderated by capital intensity.

Batt's (2002) research studied the relationship between human resource practices, employee quit rates, and organisational performance in the service sector. Based on a sample with 260 from call centres, he found that lower quit rates and higher sales growth in establishments emphasising high skills, employee participation in decision-making and in teams, and human resource incentives, such as employment security and high relative pay. This study also demonstrates that quit rates partially mediate the relationship between HRM practices and sales growth. Moreover, in 107 manufacturing plants in USA, Germany, Italy and Japan, Ahmed and Schroeder (2003) conducted a study on the impact of HRM practices on operations management. This study attempted to generalise the efficacy of the seven HRM practices proposed by Pfeffer in the context of country and industry; it focused on the effects of such practices on operational performance. The findings provide overall support for Pfeffer's seven HRM practices and empirically confirm an ideal-type HRM system for manufacturing plants. However, the study failed to confirm the argument of HR bundling.

The impact of HRM on the manufacturing companies' performance in USA was investigated by Datta *et al*. (2005), who focused on high performance work system and its impact on the manufacturing sector. HPWS was partially associated with higher labour productivity, but the relationship was stronger under the following conditions: (1) lower capital intensity; (2) high growth; and (3) higher product differentiation and high dynamism. In the Asian context, Chang and Huang (2005) emphasise the role of HRM in the Taiwanese context following the contingency approach. This study

investigated the moderating effect of product market strategy (PMS) as a contextual factor on the relationship between strategic human resource management and firm performance. The study utilised a questionnaire targeting 235 firms in Taiwan. Results support the contingency approach as opposed to the universalistic one on SHRM as it is recognised that the interaction between PMS and SHRM has various significant effects in terms of firm performance.

Andersen *et al*. (2007) studied the effects of strategic human resource management practices on perceived firm financial performance. The purpose of this study was to examine the impact of SHRM in terms of (the integration between human resource and strategic management process and the devolvement of HR practices to line managers) on firm's perceived financial performance. This study found that strategic integration and devolvement of HR were practised to a moderate extent in the firms sampled, and the degree of alignment between HR and strategic management process had a positive relationship with perceived financial performance. Furthermore, Beltran-Martin *et al*. (2008) examined the relationship between a high-performance work system, human resource flexibility, and organisational performance on a sample of 226 Spanish firms, and conclude that HPWS only affects organisational performance through various impacts on human resource flexibility. HR flexibility has been measured by skill malleability and behavioural flexibility. In this study, authors used subjective organisational performance measures, such as customer service effectiveness and participants' perceptions about the company performance comparing with their rivals.

Joseph and Dai (2009) investigated the relationship between HRM practices and the perceptions of firm performance, and found various significant connections between HRM practices and perceptual measures of performance, such as market share, quality of products, and profitability. This study also found that the strategic alignment of HRM is also a driver for firm performance. More recently, Moideenkutty *et al*. (2011) explored the effects of high-involvement human resource management practices and organisational performance in the Sultanate of Oman which is totally different context in the Gulf area. A sample of 87 companies listed in Muscat Securities Market was surveyed, with positive impacts established concerning some of these practices in

relation to subjective and objective measures of organisational performance. The practices of HRM covered selection, training, performance management, and empowerment. Performance was subjectively and objectively measured. The ratio of market value to book value represented the objective side of organisational performance.

2.4.2.3 Studies Showing Little or No Link on HRM-Performance

Some studies have failed to demonstrate positive effects of SHRM on performance. For instance, Guest and Hoque (1994) undertook a study on the UK Greenfield manufacturing companies, measuring large number of practices of HRM, divided into two main groups. The first group was high HRM strategy and practices (where half or more of the HR practices have been used) and the second group was low HRM (where less than half of the practices have been used). They did not find any significant effects of the HRM groups on employee productivity and absenteeism. Their study reveals that high HRM is no better than low HRM. Likewise, Youndt *et al*. (1996) explored the relationship between HRM, strategy and performance amongst 97 US manufacturing plants (metal-working industry). They examined two alternative views—the universal and contingency—in relation to organisational performance. The findings failed to support the universal approach and provide only limited support for the contingency approach to HRM in relation to organisational performance. However, this study was useful in raising the issue of studying the functional or plant level instead of the firm or organisational level.

In their study with a sample of 1693 UK workplaces, Wood and De Menezes (1998) ranked four types of workplace from high commitment management (HCM) to low commitment management (LCM). HCM includes employment practices, such as more monthly pay, information disclosure, appraisal, and communication. Four progressive styles of high commitment management (HCM) were examined. The percentage of organisations with medium levels of high commitment management was high. This work indicates that high degrees of high commitment management are not necessarily associated with non-union workplaces. This study also demonstrates that HCM does have some performance effects, but they did not find large differences amongst the

proposed types in relation to organisational performance. In a different context, Fey *et al*. (2000) explored the effects of HRM practices on firm performance in the case of 101 Russian foreign-owned firms. This study focused on specific HR practices, namely promotion on merit, internal recruitment, job security, and technical and non-technical training. The scholars established a weak positive relationship between employment practices and firm performance, although this link was only strongly associated with promotion on merit and job security. In addition, it was found that HRM practices have greater impact on organisational performance the more they aligned with firm strategy.

Cappelli and Neumark (2001) conducted an empirical study on the US manufacturing plants. They examined the impact of high-performance work practices on the establishment level outcomes and accordingly conclude that HPWS did not make any significant changes in employee productivity. Similarly, Way (2002) presents conceptual and empirical evidence, thus indicating that, within the US small business sector, high-performance work systems were associated with outcomes that are considered a key to the success of small US firms. Way (2002) also established that, within this sector, HPWS does not necessarily produce outcomes exceeding labour costs associated with the use of such systems.

Guest *et al*. (2003) addressed the impact of HRM in relation to corporate performance in the UK with the use of objective and subjective organisational performance measures. The study involved 366 manufacturing and service UK companies. A large number of HR practices were measured to investigate the effects of HRM in terms of companies' performance. Regarding the subjective measures of performance, a greater use of HRM practices was associated with lower employee turnover and higher profit per employee but not higher productivity. Using objective performance measures, they found a positive association between HR practices and both productivity and financial performance. Additionally, the study confirmed various associations between HRM and performance, but ultimately failed to show that HRM can cause higher performance. Similar findings were garnered by Wright *et al*. (2005), who explored the relationship between HRM, organisational commitment, and organisational performance in 50 business units in the US food services company. The results

demonstrate that HR practices (for example, training, selection, and pay for performance) and organisational commitment are not significantly related to productivity but positively related to profit.

In the UK, Wood *et al*. (2006) outlined the role of HRM on 145 call centres' performance. They examined the main propositions of the strategic human resource management approach in consideration to the following: (1) if there are consistent links through the SHRM chain from strategy, throughout operational requirements, to work design and human resource management; and (2) if the fit between the human resource practices and market factors determines organisational performance. Weak support for these hypotheses was found as only some direct relationships between the dimensions of the SHRM were found, and few direct relationships, rather than those moderated by market factors, were established between human resource practices and performance. In the subject of HR bundling, Macky and Boxall (2007) examined a high-performance work system in New Zealand context. Researchers have investigated the additive (individual HR practices) and interaction (HR practices as bundles or complementarities of practices) effects of HPWS on employee performance. They found a positive relationship between HPWS and the attitudinal variables of job satisfaction, trust in management, and organisational commitment. Additionally, they found negative interactions amongst HPWS practices. Their work failed to support the complementary thesis of HR practices.

Three Key Theoretical Studies on HRM-Performance link

It is considered particularly noteworthy to mention the contribution of three key theoretical studies which have paved the way for empirical work in this research stream. These studies questioned and stressed key important theoretical and methodological issues in this area of research. In one such study, Hutchinson *et al*. (2001) investigated the way in which the rationale behind HRM impacts on organisational performance. Their study highlighted various important aspects which go some way to helping us to understand the difficulty of measuring such a relationship: firstly, they pointed out that the HRM-performance relationship can be examined at different organisational levels ranging from establishment level to the

whole firm level; secondly, there is no consensus amongst HRM researchers on a specific or a standard group of HR practices to be considered and measured consistently in research; thirdly, HR practices have been measured differently with limited performance indicators; fourthly, some of the measurement techniques used in research are very sophisticated and hard to understand; and finally, the proper reaction of employees is sometimes lacking in regard to HRM-performance research.

Likewise, in his study entitled 'HRM and performance: Achievements, methodological issues and prospects', Paauwe (2009) reviews the work in this area and stresses various important theoretical and methodological issues. First, Paauwe criticises the theoretical aspects on HRM and confirms the relative absence of HRM theory. Furthermore, he claims that HRM researchers require a theory on HRM, organisational performance, and the way in which they are linked so as to understand the impact of HRM on organisational performance. He argues that researchers should ensure a standard list of HR practices and performance measures as opposed to dealing with them differently from one study to the next. Second, his study called for more accurate and clear measures on HRM-performance research in order to gather more consistent and reliable results. Third, he raised the methodological issues as a serious concern in order to improve the work in this area of research. Paauwe recommends investigators use better research designs in the future. Such designs should include gathering data from multiple raters, conducting in-depth interviews, creating case studies to unravel the underlying causal and interrelated mechanisms the social practices underlying HR practices, and ensuring more longitudinal research designs which are recognised as helping in terms of establishing a stronger relationship in this research stream. Finally, Paauwe describes the field of SHRM, especially with its relationship with performance, as a young field of research. He also stresses that there have been various important advances and contributions to this area of research, but further emphasises that there is still much to be expected and to be done in the future.

More recently, in his study entitled 'Human resource management and performance: Still searching for some answers', Guest (2011) reviewed the progress made in HRM-performance research, identifying a series of phases in the development of relevant theory and research in this area, and the main challenges facing future researchers.

Guest concludes that the research is riddled with errors in terms of both data regarding HRM and that of organisational performance. He argues that HRM researchers should recognise the need for more careful formulation of HRM-performance research and less research with a wide sweep. Guest further claims that HRM researchers must move away from the 'big research' concept and specify their work in order to build a stronger and more consistent theory on HRM and performance research. He also stresses the issue of measuring HR practices (individual or in a bundle) and performance, claiming that we are still uncertain about how to measure these concepts consistently in research. Guest criticises what has been done in this area of research so far as researchers do not as yet agree on a group of a specific HR practices that can most significantly impact performance. Finally, Guest concludes that, following this amount of research in the field, there remain many unanswered questions, particularly in terms of theory development, and researchers still cannot, with full confidence, state that SHRM impacts organisational performance.

Table 2.2 chronologically summarises the studies into HRM-performance link by focusing on HR practices, organisational performance measures, control variables, research design, and the main findings for each study.

Table 2.2: A chronological survey of research on HRM and organisational performance

Study	HR practices	Performance measures	Research design and control variables	Main Findings
Arthur (1994)	Decentralisation, innovative decision, Low supervision, Participation, General training, Skills (proportion of skilled workers), High wages and benefits, incentive pay, Social gathering	Productivity and turnover for previous year	Cross-sectional / Age, size unionisation, business strategy	HR practices were positively related to productivity and negatively to employee turnover
Guest and Hoque (1994)	Job design (full use of skills), Quality circles, Team briefing, information sharing, Employment involvement, Flexible job description, Selection, Formal appraisal, internal promotion, Realistic job preview, Regular use of attitude survey, Merit pay	Employee absenteeism and productivity – concurrent	Cross-sectional / No control variables were used	HR practices were not positively related to performance indicators et all
Huselid (1995)	Quality circles, Appraisal on merit, incentive plan, internal promotion, Attitude survey, Selection tests, Job analysis, Grievance procedures, information sharing	Turnover, productivity, Tobin's Q and GRATE for subsequent year	Cross-sectional / for example R&D, size, unionisation, intensity, sector	HPWS was positively related to all performance indictors used in this study
MacDuffie (1995)	Involvement, Team work, Job rotation, Openness to learning, interpersonal skills, Training, Performance-related pay, Low status barriers, Suggestion schemes	Quality and productivity – concurrent	Cross-sectional / Degree of automation, volume, complexity, product design, firm age	HR practices as a bundle had a positive impact on quality and employee productivity

Delaney and Huselid (1996)	Incentive compensation, Training, Selection, Decentralisation, Grievance procedures	Subjective organisational and market performance – concurrent	Cross-sectional / Size, product and service, unionization	Training, selection, and incentives had a positive impact on perceptual performance indicators
Delery and Doty (1996)	Internal career opportunities, Communication, Job definition, Extensive formal training, Result-oriented appraisals, Profit sharing, Employment security, Employee participation	Return on assets (ROA) and return on equity (ROE) – concurrent	Cross-sectional / for example Size by (assets), district, age	Results oriented appraisals, profit sharing, and employment security were positively associated with performance Weak support was found for the contingency and configurational approaches
Koch and McGrath (1996)	Hiring investment, High training, Human resource planning	Labour productivity – concurrent	Cross-sectional / Size, sector, unionisation, capital intensity, R&D	Weak to medium positive effects were found between HR practices and productivity
Youndt *et al*. (1996)	Staffing selectivity, Training in technical issues and problem solving, General training, Behaviour-based appraisals, Skill-based pay, incentives plan	Customer alignment (quality), machine efficiency and productivity, - average of concurrent and subsequent	Cross-sectional / Size, sales growth, business strategy	Results failed to support the universal approach of HRM. Medium support was found for the contingency approach
Huselid *et al*. (1997)	Strategic and technical HRM (Team work, Empowerment, Recruitment, Training)	Productivity, GRATE and Tobin's Q – subsequent and concurrent	Quasi-longitudinal / Size, unionisation, R&D, sector	Positive interactions between HR managers' capabilities and HRM effectiveness caused better performance

Ichniowski *et al*. (1997)	Information sharing, Meeting with employees, Formal and informal teams, Meeting with unions, Screening, Training, Communication, incentives plan, Employment security	Productivity – panel data	Cross-sectional and longitudinal/ for example Line effectiveness, firm age	HR practices as a bundle of practices were positively associated with employee productivity better than the individual HR practices
Wood and De Menezes (1998)	Benefits, Profit sharing, Merit pay, Low status differences, Appraisals, Multi-skilling, Quality circles and teamwork, Selection, Training needs analysis	Productivity change over last three years and financial performance – concurrent	Cross-sectional / for example size, sector, unionization	HR practices have not caused positive significant variations in organisational performance
Hoque (1999)	Job design, Quality circles, Selection, Flexible job description, Employee involvement, information sharing, Team briefing, Teamwork, Formal appraisals, Merit pay, internal promotion, Realistic job preview, General training, Attitudes survey	Productivity, service quality and subjective financial performance – concurrent	Cross-sectional / Size, country of ownership, strategy, unionization	The positive impact of HR practices on performance was dependent upon business strategy HR practices impacted on performance only as a bundle
Vandenberg (1999)	Incentives, Job rotation, Task force, Communication in strategic issues, Self-managed teams, Performance-related pay, Empowerment, 360-degree review	ROE – subsequent year	Cross-sectional / No control variables were used	Some positive associations were found between HR practices and organisational performance indicators.
Wright *et al*. (1999)	Employee participation, Solving customer problems, Selective staffing, Training, Rewards, Development-based appraisals	Subjective financial performance – concurrent	Cross-sectional / Technology, firm size and age	Individual HR practices were strongly related to performance when employee participation is high.

Bae and Lawler (2000)	Empowerments, Performance-related pay, Broad job design, Selection, High training	ROIC—concurrent and subsequent	Cross-sectional / Unionisation, country of origin, sector	HR practices as system of practices had medium effects on performance
Fey *et al*. (2000)	Decentralisation, Technical training, Career planning, High salaries, individual-performance pay, Promotion based on merit, Employment security, internal promotion opportunities	Subjective overall performance – concurrent	Cross-sectional / Sector, firm size and age	Promotion on merit and employment security were only positively associated with subjective performance
Cappelli and Neumark (2001)	Self-managed teams, Quality circles, Employee involvement in total quality management(TQM), Teamwork, Job rotation, Training, skill-based pay, Profit sharing	Employee productivity	Longitudinal: two sets of panel data / for example, firm age, sector	HPWS did not make any significant impacts on employee productivity
Guthrie (2001)	Information sharing, Attitudes survey, Training for future needs, Employee stock options, internal promotion opportunities, Group-based pay, Skill-based pay, Employee participation	Employee turnover and productivity – concurrent	Cross-sectional / Unionisation, firm size and age, sector	Some positive associations were found between HR practices and productivity HR practices were negatively associated with turnover
Batt (2002)	Job discretion, Self-managed teams, Participation, Teamwork, Training, Employment security, High pay	Quit rates and sales growth for last two years	Cross-sectional / Unionisation, sector, customer segment	Employment security, participation, and high pay lead to lower quit rates and high sales growth

Way (2002)	Self-managed teams, Upward communication, Job rotation, Formal training, Group-based pay, involvement	Productivity – concurrent	Cross-sectional / Unionisation, sector, firm size, capital intensity	Weak support was found for the impact of HPWS on employee productivity
Ahmad and Schroeder (2003)	Problem solving teams, Communication, Performance feedback, Teamwork, Selection, Specific training, Multiple functions training, incentives plan	Cost, quality, delivery, flexibility and new product – concurrent	Cross-sectional / Country, sector	All individual HR practices had a various impacts on operational performance Results failed to support the complementarities thesis
Guest *et al*. (2003)	Self-directed teams, Full use of abilities-based jobs, Quality, Communication, Flexible job description, Cross functional teams, Realistic job preview. Selection, Present and future need analysis, Appraisals, Profit-related pay, individual and group incentives, internal promotion, Employment security	Productivity and profits in the years before and after the independent variable was measured	Quasi-longitudinal/ Size, sector, unionisation, consultation, HR strategy prior performance	Results confirmed few associations between HR practices and both subjective and objective performance Results failed to prove that HRM can cause higher performance
Wright *et al*. (2003)	Employees' participation, Fair complaint process, Structured interviews, individual bonuses, Performance-related pay, internal promotion opportunities, Formal training	Productivity and profit – subsequent for period 3 – 9 months after HR practices were measured	Cross sectional (HR practices = T1, performance = T2, -3-9 months later) No control variables were used	Results showed that HR practices and organisational commitment were not significantly related to productivity but positively related to profit

Datta *et al*. (2005)	Self-managed teams, Performance feedback, Complaint system, Job rotation, Specific and general training, Attitude surveys, Skill-based pay, Recruitment, Merit-based promotion, Training, Cross functional training	Productivity – concurrent	Cross-sectional / Capital intensity, strategy, growth,, dynamism	HPWS was partially positively associated with employee productivity
Green *et al*. (2006)	SHRM was measured by the horizontal alignment and vertical integration - No specific HR practices were considered in this study	Subjective measures of the following variables: financial and market performance – employee performance – job satisfaction – organisational commitment	Cross-sectional/ Firm size, annual revenues	Results indicated that SHRM had a direct positive impact on individual employee performance, organisational commitment and organisational performance
Wood *et al*. (2006)	Training (induction, initial, extensive), Job description, Cross functional teams, Selection tests, Appraisals, Job discretion, Formal written performance, Quality circles, internal recruitment opportunities	Absenteeism and turnover – concurrent	Cross-sectional/ for example, Age, education, number of core employees, presence in international market	Few direct relationships were found in the relationship between HR practices and organisational performance
Chand and Katou (2007)	Recruitment and selection, Manpower planning, Job design, Training and development, Quality circles, Pay system	Subjective measures: sales growth, productivity, profitability, goal achievement, and good service—concurrent	Cross-sectional / Size, age, capital, category, hotel type	HR practices were positively associated with subjective performance indicators
Macky and Boxall (2007)	Performance-based pay, Teams, Employee participation, Low status differentials, internal promotion, Formal appraisal system,	Organisational commitment	Cross-sectional / Age, gender, tenure	Positive associations were found between HR practices and organisational commitment

	Developmental appraisals, Formal communication programmes, Attitudes surveys, Employment security, Formal training, Complaints system, Targeted selection, Merit-based promotion, Formal job analysis			Results failed to support the positive impact of HR practices as a bundle
Beltran-Martin *et al*. (2008)	Comprehensive staffing, Extensive training, Developmental performance appraisals, Equitable rewards system	Customer service effectiveness—over the 3 years	Cross-sectional / Firm size, sector	HPWS has only affected organisational performance through its effects on HR flexibility
Guthrie *et al*. (2009)	Employment tests, Extensive recruitment efforts, internal promotion, Performance-based promotion, Formal performance appraisal, Formal performance feedback, Group performance, Self-managed teams, Financial performance information, Attitude surveys, Extensive training, Cross functional training, Skill-based pay, Employees participation	Labour productivity, employee absenteeism and turnover—Concurrent	Cross-sectional / Age, Size, Union density, industry	Results indicated that the grater the use of HPWS, the lower the rates of absenteeism, employees' turnover, and lower labour cost
Joseph and Dai (2009)	Training, Employment security, Career management programmes, Promotion from-within, Employee development, Pay issues, Feedback system, The complaint resolution system	Subjective measures: market share, quality of products or services, profitability, sales growth – concurrent	Cross-sectional / Firm size and firm age	HR practices had some positive associations with performance HRM-strategy alignment was a driver for firm performance

Lee *et al*. (2010)	Training and development, Compensation and incentives, Teamwork, HR planning, Performance appraisals, Employment security	Subjective measures: product quality, production cost, product delivery, production flexibility - Concurrent.	Cross-sectional / Firm size and age	HR practices were positively associated with performance The integration between HRM and business strategy had a positive impact on performance
Katou and Budhwar (2010)	Resourcing and development, Compensation and incentives, Involvement and job design	Subjective measures: effectiveness, efficiency, innovation and quality – Predictive design	Cross-sectional / Firm size, firm age, capital intensity, degree of unionisation, industry	The HRM-performance relationship was fully mediated by employee skills, attitudes, and behaviours
Moideenkutty *et al*. (2011)	Selection, Training, Performance management, Empowerment	Subjective measures, and objective by ratio of market value to book value – Concurrent	Cross-sectional / Firm size, firm type	Some positive effects were found between HR practices and organisational performance

Source: Developed by the author.

2.4.2.5 Summary of Research on HRM-Performance link

The following summary highlights gaps and comments emerging from the review of HRM-performance research in the previous sections:

1. Although several studies provide evidence of some form of links between HR practices and performance, strong and consistent evidence that SHRM does indeed positively impact on organisational performance is lacking.

2. Almost all of the studies on the impact of HRM practices on firms' performance have been conducted on the US and the UK; very few studies have been done in different contexts. As a result, researches have suggested a need for additional studies to be conducted in different contexts (for example, Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007). Asia, Africa, Australia, and other European countries could be involved in the next generation of studies on HRM-performance link.

3. After having discussed HR practices, performance measures, and the nature of the link between HRM and performance, we have realised that there is no clear and precise theory on HRM, performance, and the link between them. The summary provided in Table 2.2 shows that each study utilises various combinations of HR practices, and so there is no standard or semi-standard list of HR practices to be considered and measured in the link with organisational performance. Furthermore, different performance indicators have been used in different studies, such as service, quality, turnover, productivity, customer satisfaction, absenteeism, new product development, ROE, ROA, Tobin'Q, GRATE, profit, and subjective financial performance by asking respondents to compare their performance with their rivals in the same industry. On the subject of the mechanism used in research, it is also not consistent; some researchers have examined the relationship directly whilst others have examined it indirectly through many different mediating variables.

4. Several researchers have examined the impacts of individual HR practices on performance, whereas others have examined the bundles or the complementary range of HR practices on organisational performance. It has been claimed in literature that HR, as a system or a bundle of practices, is certainly a better approach when researchers are seeking to scrutinise the impacts of such practices on firm-level performance (Delaney and Huselid, 1996). However, as yet, no strong and compelling evidence for the effect of HR bundles on organisational performance has been found. Although it may sound logical to say that components of an equation can solve an equation better than just one unknown, it is not as yet safe to say that HR practices as a bundle are related to performance more than its individual parts. Thus, the next research generation needs to examine both cases in order to reach at definite conclusions on this matter.

5. A large number of studies on the HRM-performance link have only used subjective measures to assess organisational performance. It would be more rewarding if researchers similarly utilised numerous objective variables in order to reduce the probability of common method variance (Wall and Wood, 2005) and to thereby avoid misleading normative and descriptive theory building (Lumpkin and Dess, 1996).

6. Employee turnover and productivity are the most commonly used variables as performance outcomes in the previous studies. The relationship between employee productivity and turnover and HR practices is relatively direct; therefore, effective HR practices could directly impact employee productivity and turnover which, in turn, could affect other organisational performance indicators. Such variables are considered as behavioural performance outcomes, which is the reason as for why we would expect HR practices to have a direct and strong impact on them; this could positively affect other organisational performance indicators, such as the financial returns of the companies. Therefore, employee productivity and turnover could be more taken into consideration in the theory of HRM-performance link as mediating variables in future research.

2.5 Concepts Underlying SHRM Theory

The following sections discuss the theoretical concepts underpinning the SHRM process. It begins with the core aspects of SHRM, followed by three basic approaches to SHRM: the universalistic approach, the contingency approach, and the configurational approach. In the final part, we discuss the resource-based view of the firm and its application to SHRM theory, and the HR director's role in SHRM implementation within the organisation.

2.6 The Concepts of Strategic HR Involvement and HR Devolvement

There are two core aspects of SHRM: first, the integration or the involvement of HR functions into the business and corporate strategy; and second, the devolvement of HR practices execution to line managers. Literature on HR involvement and devolvement is intimately linked with the adherence to the notion of strategic HRM. If it is true that, in the modern-day corporate world, HR are the valued assets and have to be used optimally to achieve organisation goals, then to do so they have to be effectively involved and integrated within the strategic activities of the firm and the devolution of the day-to-day HR issues to line managers. The following discusses the two aspects in detail.

2.6.1 Strategic HR Involvement/Integration

Strategic HR involvement is the integration of HRM in the process of formulation and implementation the overall strategic direction of an organisation and the alignment of HRM with organisational strategic goals and objectives (Brewster and Larsen, 1992; Schuler and Jackson, 1999). Organisations could integrate the HRM into business and corporate strategies for the following reasons (Lengnick-Hall and Lengnick-Hall, 1988; Truss *et al*., 1997; Budhwar, 2000):

1. The integration between HRM and business strategies provides a broader range of solutions for solving complex organisational problems, and similarly ensures an effective implementation of organisational strategies.

2. HRM-organisational strategy integration ensures that all the human, technical, and financial resources are given identical consideration in the setting of goals and objectives, and also in evaluating implementation capabilities.

3. HR involvement emphasises the critical role of HR in organisations and accordingly limits the subordination of strategic consideration to HRM.

4. Consider HR function as a main source to obtain a sustainable competitive advantage and give them a long term focus in their firms.

The level of strategic integration can be measured by several dimensions, such as the representation of HR directors or professionals on the board; the presence of a written and documented HR strategy; and the translation of HR strategy into a clear set of work programmes (Budhwar, 2000). In addition, Ulrich (1997a) has asserted that human resources, as strategic partners, could be involved in the strategic decision process next to other senior managers in organisations; it is recognised that this would give organisations an opportunity to align HR practices and policies with strategic business and corporate objectives. Establishing a good relationship between the Chief Executive Officer (CEO) and HR manager can also increase the opportunity of HR involvement in the strategic affairs of the company (Sullivan, 2003). Moreover, a documented HR strategy can provide HR managers with greater authority and power in terms of making strategic decisions, and thus increases their overall capacity to cope with externalities, such as a tight labour market (Khatri, 1999; Andersen *et al*., 2007). Andersen *et al*. (2007) asserts the role of a documented HRM strategy in terms of helping organisations to develop a HRM mission and vision and to thereby evaluate organisational performance.

2.6.2 HR Devolvement

HR devolvement is the delegation or the involvement of line managers in running and implementing the HR practices within the firm. The reasoning behind this is that line

managers operate closer to their employees and can motivate, control and manage them better (Ulrich, 1997b; Budhwar and Khatri 2001). Line managers, for example, could shoulder the responsibilities of HR practices, such as recruitment, selection, appraisals, and training. Furthermore, in order to make sure that HR practices are carried out in harmony with HRM policy, HR managers and professionals could train line managers on HR practices, and continuously interact and communicate with them (Budhwar and Khatri, 2001). The rationale that organisations should devolve the HRM practices for line managers are detailed as follows (Budhwar, 2000):

1. Some issues are too complex to be covered by top management alone.

2. Line managers can respond more quickly and effectively to their employees and their work conditions.

3. Such a devolvement will result in more motivated employees and more effective control.

4. It increases organisational effectiveness and efficiency especially by avoiding the traditional and bureaucratic personnel functions, thus, HR managers and professionals can easily play the strategic partner role.

2.7 Theoretical Perspectives on SHRM and Organisational Performance

Delery and Doty (1996) have identified three groups of researchers and the perspectives they have followed in theorising SHRM. They have labelled the first group of researchers as 'Universalists', mainly because of their interest in terms of identifying HRM 'best practices'. Moreover, they have identified the second group of researchers adopting a contingency approach (external fit or vertical fit). These researchers claim that the success of HRM practices is contingent upon the achievement of a match between HR practices and other issues of the organisation, such as business strategy. Finally, Delery and Doty (1996) identify the third group of researchers adopting 'configurational' approach. In the following sections, we discuss these approaches in some detail.

2.7.1 Universalistic Approach (Internal or Horizontal Fit)

Delery and Doty (1996) have argued that the universalistic researchers hypothesise that a particular set of HR practices are always better than others, and that all organisations could adopt these practices so as to outperform other competitors. Researchers have assigned different terms to such best practices, such as high-involvement practices, high-commitment practices or high-performance work system. The rationale behind this it is that the adoption of particular HRM policies is expected to gain competitive advantage and accordingly result in increased organisational performance (Kochan and Dyer, 1993; Brewster, 1999; Brewster *et al*., 2008).

The universalistic theory has the ideal group of best practices (the so-called 'best practices'), which will continuously generate superior organisational performance regardless of the circumstances and the industry. This approach emphasises that the internal or horizontal fit (the bundle or complementarities of practices) will result in better organisational performance (Huselid 1995; Pfeffer 1998). Pfeffer (1998) has claimed that the best practices approach is based on the assumption that organisations should heavily invest in people because they are valued assets and the main source for competitive advantage. Pfeffer further identifies the following best practices, which are considered always able to achieve better performance: employment security; selectivity in hiring; self-management work teams; high compensation contingent on work performance; extensive training; reduce status differences; and information sharing. The best practices approach is based on the resource-based view (RBV) of the firm, which emphasises the role of internal resources as the key to gain a sustainable competitive advantage (Youndt *et al*., 1996). RBV theory states that rare, valuable, inimitable and non-substitutable HR practices can lead to competitive advantage.

Regardless of the attention assigned to this particular approach, there are various some disadvantages associated with the methodological and theoretical sides. With consideration to the measurement and methodological issues, researchers disagree in terms of how a HR system should be determined as an integrated and synergetic HR

practice that blends better in producing higher business performance (Delery, 1998). In addition, only successful and high-performing firms would consider themselves in the best practices approach owing to their excellent results. Another problem concerns the choice of measures of performance, which are commonly narrowly focused on financial criteria with few studies taking into consideration the broader issue of employee satisfaction, commitment and well-being. Furthermore, researchers are still confused on the issues of research methodology, such as data collection methods, data analysis, and presentation of the results (Redman and Wilkinson, 2005). Another issue concerns the difficulty for practitioners and some academics to understand the highly complicated statistical techniques adopted in some studies (Gerhart *et al*., 2006). Finally, one of the important challenges facing researchers is the 'operationalisation' of the variables as different researchers may use different definitions for the HR practices.

2.7.2 Contingency Approach (External or Vertical Fit)

The second group of theorising that has been identified by Delery and Doty (1996) includes those researchers adopting a contingency approach (external fit or vertical fit). This group of researchers claim that the achievement of high performance is contingent upon the achievement of fit between HRM practices and other aspects of the organisation. In other words, organisations usually go through different stages in their lifecycle, and HR practices could be contingent upon such stages. As a result, organisations could make changes in their business strategies, and HR practices could be linked with such approaches in order to achieve successful results. HRM practices could be adopted depending on the organisational corporate and business strategy (Schuler and Jackson, 1999). As a result, in the contingency approach, we must go first to business strategy then to HR practices in order to improve business performance.

The contingency approach, however, is not without its critics. With regard to measurement and methodological issues, there are various problems relating to this approach (Redman and Wilkinson, 2005). For instance, the problem related to multiple contingencies could make the measurement more difficult. If the environment is very

dynamic and complex with multiple contingencies that cannot be isolated, HR practices could be changed continuously. Another problem is that organisations cannot treat employees consistently overtime; treatment changes as a response to external pressures.

2.7.3 Configurational Approach (Internal and External Fit)

Delery and Doty (1996) identify the third group of researchers adopting the 'configurational' approach, claiming that this approach is more complex and comprises researchers who look for identifying configurations or unique ideal types of factors that are posited to be maximally effective. The rationale behind the 'configurational' approach is that organisational strategy success depends on combining internal and external fit. In other words, this approach suggests that HR bundles, synergies, or configurations of practices are dependent on the organisational context (Huselid and Becker 1996; Delery and Doty 1996; Razouk, 2011). The key argument of this approach is to combine the internal and external fit so that researchers first consider the business strategy and then consistent HR practices in order to achieve higher organisational performance. For instance, Miles and Snow (1984) and Arthur (1992) generated effective combinations of HR practices and argued that such different sets of HR practices effectively work with different firm strategies.

2.8 SHRM and the Resource-based View of the Firm

A resource-based view (RBV) of the firm focuses on the role of internal resources to generate a sustainable competitive advantage; it is more commonly associated with the work of Wernerfelt (1984), Prahalad and Hamel (1990), Barney (1991), Grant (1991), and Penrose (1995). Several researchers in the field of SHRM used RBV theory to explain the relationship between SHRM and organisational performance (for example, Barney and Wright, 1998; Boxall and Purcell, 2000; Wright *et al*., 2001). In fact, RBV represents a paradigm shift in the way of thinking and researching in SHRM field by focusing on the internal resources instead of focusing and analysing the external context (Beardwell *et al*., 2004). Thus, SHRM researchers look at human resources as one of the most important internal resources in organisations that could

be used to generate a sustainable competitive advantage. This is the main reason that RBV of the firm has strong implications for SHRM theory.

The RBV of the firm proposes that internal organisational resources (for example, human, technical) that are valuable, rare, inimitable, and organised are a source of sustainable competitive advantage. Barney and Hesterly (2008) claimed that resources are valuable when they enable an organisation to exploit the external opportunities and neutralise external threats. Moreover, resources are rare when they are controlled by only a small number of competing firms. Moreover, resources are inimitable when they are costly and difficult to imitate by other competitors. Additionally, resources became inimitable as a result of the unique history of the firm, causal ambiguity of using these resources to generate a competitive advantage, and their social complexity. Finally, resources are organised when firms have the right policies and procedures to support the valuable, rare, and costly to imitate resources.

As strategy researchers have focused on the role of internal organisational resources in generating a sustainable competitive advantage, HR practices and policies are considered as core to generate this competitive advantage for companies. SHRM researchers consider employees as strategic resources and emphasise that human resources could be valuable, rare, inimitable and highly organised in order to make a difference in organisational performance and generate a competitive advantage. For instance, several researchers have attempted to deal with HR practices as systems or unique bundles of practices to be valuable and costly to imitate, and as Barney (1995) emphasises, the unique bundles of HR practices support organisations in terms of gaining a competitive advantage more so than individual HR practices. Hence, the idea of unique bundles and internal consistency amongst HR practices has been generated from a resource-based view of the firm as such bundles of practices have to be valuable, rare, and inimitable to provide a sustained competitive advantage. Delery and Shaw (2001) emphasise this argument by pointing out that the logical combinations of HR practices in systems or bundles are difficult to imitate by other competitors and are therefore more valuable than a single practice in isolation. Nonetheless, the RBV of the firm is not without its critics. Some researchers have suggested that the RBV theory could be linked with the external context in order to be

more effective (Porter, 1991; Miller and Shamsie, 1996). Furthermore, Way and Johnson (2005) highlight that, whilst RBV illustrates what is needed for organisational effectiveness, the theory does not clarify and simplify the way in which this can be achieved; therefore, in isolation, RBV is insufficient in terms of providing explanatory power for the effect of SHRM on organisational performance.

2.9 The Role of the HR Director

As stated earlier, in the strategic HRM literature, there two core aspects of SHRM: these are the involvement or the integration of HR functions into the business and corporate strategy, and the devolvement of HR practices execution to line managers. Literature on strategic HR involvement and devolvement is intimately linked with the adherence to the notion of strategic HRM. Thus, if it is true that, in the modern day corporate world, HR is the valued asset and has to be used optimally to achieve organisation goals, then in order to do so, there needs to be effective involvement and integration within the strategic activities of the firm, as well as the devolution of the day-to-day HR issues to line managers. The HR activities in which HR directors engage may not entirely constitute what strategic HRM is all about; nevertheless, HR directors continue to play an important role in terms of supporting and implementing the involvement and devolvement issues in organisations which, in turn, could reflect positively on organisational success (Ulrich *et al*., 1989; Hiltrop *et al*., 1995; Budhwar, 2000).

Importantly, Strategic HR integration is the involvement of HRM in the process of formulation and implementation of the overall strategic direction of an organisation and the alignment of HRM with organisational strategic goals and objectives (Schuler and Jackson, 1999); HR devolvement, on the other hand, is the delegation or involvement of line managers in running and implementing HR practices owing to operating close with their employees and motivating, controlling and managing them directly (Ulrich, 1997b; Budhwar and Khatri, 2001). As a result, line managers could shoulder the responsibilities of HR practices, such as recruitment, selection, appraisals and training. Furthermore, in order to make sure that HR practices are carried out in harmony with HRM policy, HR managers and professionals could train line managers

on HR practices, and interact and communicate with them (Budhwar and Khatri, 2001). Some authors have found that, when HR directors devolve day-to-day HR issues, organisations are able to solve many problems at the lower level, which subsequently leads to better change management, and thus helps to build responsible line managers (Budhwar, 2000). Moreover, it is argued that a good relationship between the line manager and HR manager helps the latter to better understand and realise the problems in different organisational functions (Sullivan, 2003).

Notably, it is stated that there are several justifications provided as to why HR directors should devolve HRM practices to line managers: for instance, some issues may be too complex to be covered by top management alone; line managers can respond to their employees and work conditions more quickly and effectively; devolvement may result in motivating employees by giving them a sense of effective control; increases organisational effectiveness and efficiency—especially by avoiding the traditional and bureaucratic personnel functions—and thus, HR managers and professionals can easily play the strategic partner role (Budhwar, 2000).

The realisation that the effective and proper management of human resources can add real value to modern-day organisations has led a number of scholars—such as Storey (1995), Tyson (1995), Wright *et al*. (2001), Evans *et al*. (2002)—to take great interest in the role HRM directors play in achieving these values for organisations. A review of the literature on the role of HR directors highlights various interesting frameworks and models that have attempted to identify specific roles of HR directors. A good starting point is Tyson's typology (1987), which classifies the role of HR director into three main models. Markedly, Tyson (1987) refers to the first model as the Clerk of Works model. The personnel manager in this model works as an administrative supporter with no involvement in business and strategic issues. In this context, the principal activities of the HR director are the main HR practices, such as recruitment, performance appraisals, training and incentives and rewards. The second model is the contract manager model. HR managers work as experts in trade union agreements and fixing day-to-day issues with the unions. Finally, the third model is referred to as the Architect model, wherein HR directors contribute in terms of building the whole organisation and are the key persons for organisation success. HR directors, in this

model, must also have a good relationship with line managers and top executives. They work with top management in terms of formulating and implementing business and corporate strategies. Other writers, such as Carroll (1991), have also captured a shift in HRM roles as a result of the positive impact of HRM on organisational performance as being more strategy-oriented than how it was before. His framework defines three new roles in addition to the traditional ones: the first is that of delegator, where line managers serve as key implementers of HRM system; the second role is the technical expert, where HR managers and professionals only have highly specific HR-related skills, such as recruitment, performance appraisals, and training and development, and are therefore only focused on their area of specialty; and finally, the last role has been referred to as the innovator, which enables HR managers to recommend new approaches to solving major problems within their organisation, such as a lack of productivity.

Storey (1992), on the other hand, adopts a somewhat different perspective, and accordingly proposes the following typology based on two dimensions—interventionary vs. non-interventionary, and strategic vs. tactical. This typology breaks down the different types of HR manager:

1. Advisers: HR managers act as internal consultants; they know all the recent developments in their organisations, but leave the actual implementation of HRM issues to line and top management. This role is strategic but non-interventionary.
2. Handmaidens: HRM is primarily customer-led in the services they offer, and they cooperate in everything they do with line managers. This role is tactical but non-interventionary.

3. Regulators: HR managers formulate, promulgate and monitor all employee-related issues, ranging from the personal issues to joint agreement with the union. This role is considered to be interventionary and tactical.

4. Change makers: HR managers make real changes within their organisations based on the overall strategic and business needs. This role is interventionary and strategic.

Ulrich (1997b), on the other hand, introduced a model of HRM that identifies four roles that HR managers play:

1. Strategic partner: HR managers have to align HR initiatives with the strategic goals of the organisation. They implement these practices whilst taking into account the strengths and weaknesses of the organisation so as to add value.

2. Change agent: HR managers attempt to increase the competitiveness of their organisation in an ever-changing work environment. They implement HR practices to assess and respond to inevitable changes in the competitive landscape, government regulations, and global economy so as to achieve and maintain competitive advantage.

3. Administrative expert: HR managers introduce efficient HR processes, whether they are in recruitment and selection, or training others to maximise the use of new technologies and improved methods in order to add value.

4. Employee champion: HR managers seek to maximise employee productivity and loyalty to the organisation, which can be achieved by both listening and responding to employee needs with available resources, or by otherwise increasing an employee's knowledge, skills and ability. HR practices that can be utilised include career-planning, mentoring, training, and development.

Ulrich's (1997b) multiple HRM role models help describe the important implications of global trends and other issues that need to be addressed by HR departments to continue to demonstrate and increase organisational value.

Finally, Truss, Gratton, Hope-Hailey, Stiles and Zaleska (2002) classify HR managers into two main types: Type A and Type B. They argue that Type A HR managers have the power and authority within their organisations, and consider themselves to be both a business and strategic partner. This type of HR manager works as a close partner with top management and supports them in terms of coping with major changes within the business environment. In contrast, Type B HR managers concentrate on their own field of speciality and are traditional-approach-oriented. In general, all of the proposed models in the HRM literature reflect the idea that the role of HR managers has taken a shift to being more business-oriented, more strategic, and more focused on organisational change.

On a different note, some researchers have argued that HR directors will require a wide range of skills in the future. For instance, the European Association for Personnel Management (EAPM) has conducted a comprehensive study in Europe to explore the future role of the HR director. They interviewed 4,250 HR directors from 15 different countries. The study revealed that HR directors should be good performers, good at project management, and must be internationalists. Moreover, they could have multi-functional experience and senior management experience. The study argued that HR directors could be perceived as strategic partners than those holding traditional, administrative and centralised departments (Derr *et al*., 1992). In this context, Ulrich, Brockbank and Yeung (1989) suggest that HR managers wanting to be considered as strategic partners by top management within their organisations must demonstrate additional skills and competencies. For example, they have to ensure broad knowledge of the business, the ability to manage change, and the ability to deliver outstanding HR services. Hiltrop *et al*. (1995) emphasises the changing nature of HR directors and HR professionals in the future, arguing that organisations could provide promising HR directors with the opportunity to broaden their knowledge to other functions, help them to develop business experience, and further support career tracks that will create the new HR profile. In addition, line managers must be rotated, trained, and developed in HRM so that they will be able to deliver excellent HR services.

Another important issue concerning the role of HR director is the representation of personnel directors in the Board of Directors. The pace of change in modern organisations has given HR managers, as Board members, a number of opportunities to formulate the business and corporate strategies, and to subsequently formulate HR strategies and policies based on these strategies so that they can effectively and efficiently implement them (Kelly and Gennard, 1996). HRM researchers have given this issue special much consideration as it is viewed as an important step to considering the HR manager as a business and strategic partner. Budhwar (2000) argues that the level of integration between HRM and the overall strategic process of the company could be measured by the representation of HR directors on the board. Ulrich (1997a) asserts that HR directors, as strategic partners, should be involved in the strategic decision process next to other senior managers in organisations owing to the fact that this would give organisations the opportunity to align HR practices and policies with strategic business and corporate objectives. Sullivan (2003) and Kelly and Gennard (1996) claim that establishing a good relationship between the CEO and HR manager increases the opportunity of the HRM-organisational strategy nexus. Moreover, an effective relationship between the HR manager and CEO could be based on a high trust relationship concerning shared values on the issues of strategic development and the success of business.

2.10 Summary

The various concepts of HRM, SHRM, and organisational performance have been explained and discussed throughout this chapter. HRM refers to various practices, such as recruitment and selection, training and development, incentives and rewards, performance appraisals, and employee participation, all of which may affect employee behaviours, attitudes and performance. The concept of SHRM has been developed as an outcome of the growth and expansion of the research on HRM and its corresponding link with organisational performance. With regard to organisational performance, there is no specific and precise meaning for this construct in HRM

literature. Importantly, researchers have measured performance based on various subjective measures, such as employee satisfaction, customer satisfaction, absenteeism and employee commitment, and a number of other objective measures, such as financial and market indicators. In addition, the gaps in the research surrounding the HRM-performance link have been highlighted. There is, as yet, no precise theory on HRM practices, organisational performance, or the nature of the linkage between them.

This chapter has also explained the numerous concepts of strategic HR involvement, HR devolvement, and the main approaches (universalistic, contingency, and configurational) researchers have followed when conducting studies in this stream. In the last two sections of this chapter, the resource-based view of the firm and the role of the HR director have also been afforded consideration. The RBV of the firm represents a paradigm shift in the way of thinking and researching in the SHRM field by focusing on the internal resources as opposed to focusing on the external context. With regard to the role of HR directors in SHRM context, the HR activities in which HR directors engage may not entirely constitute what strategic HRM is all about; nonetheless, HR directors continue to play an essential role in terms of supporting and implementing the strategic HR involvement and HR devolvement issues in organisations which, in turn, could be reflected positively on organisational success.

CHAPTER THREE: THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1 Introduction

Based on the literature review discussed in the previous chapter, this research adheres to the following steps to investigate the relationship between SHRM and organisational performance in the financial industry in the country of Jordan. First, based on the previous work on HR practices, a specific group of the most significant and commonly applied HR practices are identified. Second, a multi-dimensional concept of organisational performance is adopted to reflect a better picture of performance. The direct relationship between HR practices—individual as well as a bundle of practices—and organisational performance is then examined. Third, we also consider employee turnover as a mediating variable in the indirect relationship between HRM and performance.

Notably, employee turnover has been used extensively in HRM literature as an important behavioural performance outcome (for example, Arthur, 1994; Shaw *et al*., 1998; Ramsey *et al*., 2000; Richard and Johnson, 2001; Guthrie 2001; Way, 2002; Bat, 2002; Chang and Chen, 2002; Guest *et al*., 2003; Paul and Anantharaman, 2003; Wood and De Menezes, 2008). Fourth, the core aspects of strategic HRM (Strategic HR involvement and HR devolvement) are considered from the perspective of HR directors. Fifth, this research is conducted in a new non-Western environment.

3.2 Approach of the Present Research

1. We choose a specific group of strategic HR practices which are expected to make a difference in organisational performance. A multi-dimensional concept of performance is employed, taking into consideration subjective and objective measures of performance.

2. Employee turnover is also employed as a mediating variable to test the indirect relationship between HRM and organisational performance.

3. This research examines the effects of HR practices as individual practices and as complementarities of practices. The concept of the internal fit of HR practices is tested in this work.

4. There is an implicit undercurrent in the HRM literature that the role of the present-day HR director has become more strategic as opposed to carrying out routine functions that a personnel manager performed until recently. In this work, we empirically test these assertions in the context of the country of Jordan. This research further takes a closer look at the role HR directors are playing in the financial enterprises in the wake of these firms' attempts to enhance their organisational performance.

5. This research studies the impacts of the core aspects of SHRM (strategic HR involvement and HR devolvement) on financial performance. Following the recommendations of HR scholars (for example, Budhwar, 2000; Andersen *et al*., 2007), this is the first attempt examining the impact of strategic HR involvement and HR devolvement from the perspective of HR directors on objective financial performance.

6. HRM researchers argue that the results of HRM-performance link are ambiguous and are difficult in terms of making generalised conclusions from these results (Beardwell *et al*., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and there is the need for further studies from different contexts (Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007). We conduct this research in a new non-Western environment as opposed to research mostly conducted in the US and the UK. This is the first work examining such a relationship in the context of the country of Jordan. Moreover, the majority of HRM studies in the developing countries have shown that the main focus on HRM is dedicated to the industrial sector (Mohammad, 2011); particularly the industrial companies; therefore, this

research is applied in a completely different industry which is the financial industry in Jordan.

3.3 Theoretical Framework and Hypotheses Development

This section discusses the concepts and controversies surrounding the core issues concerning the HRM-performance link. It reviews the literature related to empirical and theoretical work on the HRM-performance debate. It is also considered that this scheme should help us to define the conceptual issues in a clearer manner and, in the process, highlight the difficulties in the topic under investigation, leading to the derivation of testable hypotheses in a clearer manner.

3.4 Human Resource Management Practices

Any combination of HR practices essentially encompasses an element of selectivity (Guest, 1997; Brewster *et al*., 2008). In the context of this work on HR practices, we have drawn on various pioneering works in the field of HRM. HR practices, for this work, are developed based on the work of Delery and Doty (1996) and Pfeffer (1998). Delery and Doty (1996) have proposed seven different HR practices they refer to as strategic human resource practices. Their work is based on the theoretical and empirical work of Miles and Snow (1984), Osterman (1987), Kerr and Slocum (1987), and Sonnenfeld and Peiperl (1988). Theriou and Chatzoglou (2008) have pointed out that such practices that have been proposed (Delery and Doty, 1996; Pfeffer, 1998) are expected to generate inimitable human resources and accordingly lead organisations to gain competitive advantage. Researchers refer to such practices as strategic HR practices owing to their impacts on the bottom-line issues in different organisations.

Fowling on from this literature, this study employs a group of five strategic HR practices—recruitment and selection, internal career opportunities, formal training system, formal appraisal system, incentives and rewards—that are expected to make a difference in organisational performance. We employ the most essential HR practices which have proven, through the course of literature, their strong and positive impacts on a variety of organisational indicators. Such practices are common, and we can

therefore most likely find them within any organisation with a HR department or basic HR functions. Furthermore, four of the HR practices selected for this present work reflect the main objectives of the majority of strategic HRM programmes in organisations and are most commonly used in HRM-performance research (Batt, 2002; Paauwe, 2009), namely recruitment and selection, training, appraisal system, incentives and rewards. Paauwe (2009) claims that there is a convergent trend in HRM theoretical and empirical work toward approaching HRM as a combination of these four practices as they best reflect the strategic shift of the felid.

Researchers seeking to develop a prediction in HRM-performance link need to consider two main steps (Delery and Doty, 1996): first, important HR practices should be identified; second, the argument that such individual HR practices are linked to organisational performance should be presented. Following the first step, our focus on HR practices is placed on the following practices: recruitment and selection, internal career opportunities, formal training system, formal appraisal system, incentives and rewards. Indeed, the majority of these HR practices have been included by the work of Pfeffer, and Delery and Doty, and have also been the greatest support across a diverse literature (Delery and Doty, 1996). Following the second step proposed by Delery and Doty (1996), the following parts provide the theoretical and empirical verifications of these practices (arguments that they are linked to performance).

3.4.1 Recruitment and Selection

DeCenzo and Robbins (2005) define recruitment as the process of generating a large pool of applicants and accordingly filtering them by selecting qualified applicants. Selection, on the other hand, is the process of conducting employment tests, interviews, employee investigations, and other examinations in order to select a qualified employee.

Recruitment and selection have significant contributions within organisations. For instance, Huseild (1995) states that selecting the right person for the right place contributes to higher productivity and enhanced market value of the organisation. Furthermore, such a practice can provide significant contributions to the organisation,

as found by Koch and McGrath (1996), where investments in careful recruitment and selection were found to be positively related to the productivity of the labour force. In addition, selectivity in staffing is positively related to perceived market performance (Delaney and Huselid, 1996). Moreover, careful selection is negatively associated with turnover rate (Verburge, 1998). More recently, Moideenkutty *et al*. (2011) confirmed the overall effectiveness of such a practice on the bottom-line issues of organisations, stating a positive impact on subjective and objective indicators in relation to organisational performance. Such a practice is considered to be one of the core and most important practices in HRM. The literature shows that recruitment and selection have been included in the mixture of HR practices chosen by HRM researchers in the majority of the studies. Pfeffer (1998) claims that organisations can generate and expand their profits by ensuring that they recruit the right people in the first place. More to the point, employee skills, qualifications, and abilities need to be carefully selected by organisations in order to meet their specific job requirements and its approach to the market.

3.4.2 Internal Career Opportunities

The concept of 'internal career opportunity' refers to the organisation promoting from within. Such organisations have policies to recruit internally rather than externally. Internal career opportunities encourage the development of employees within their organisations as the chances or opportunities of promotion within the organisation, which act as an incentive to perform better—a status-based reward aside from the more obvious monetary rewards (Pfeffer 1994; Guest, 1997). Guest (1997) argues that firms adopting such a policy tend to generate a high level of commitment amongst employees. Such a practice also makes employees more motivated as they know that they have opportunities for advancement within the company, and that these practices are helping in making more stable employment system (Noe *et al*., 2006). Furthermore, the implementation of internal career opportunities practice can also promote justice and fairness within organisations and thus avoid the chances of estrangement that may occur when new employees or outsiders fill in more advanced positions (Noe *et al*., 2006).

Studies that have been conducted with the objective to examine this practice have found positive effects on organisations. For instance, Verburge (1998) states that internal promotion opportunities are positively related with market share, perceived profit, and investment in the future. Furthermore, Delery and Doty (1996) emphasise the impact of internal career opportunities on various financial indicators within the banking sector in the US. Additionally, internal career opportunity was found to be negatively associated with employee turnover (Guthrie, 2001). Joseph and Dai (2009) also found positive connections between internal career opportunities and subjective organisational performance measures, such as market share, quality of products or services, profitability, and sales growth.

3.4.3 Formal Training System

Formal training can provide and develop employees' skills, abilities and behaviours, and accordingly motivate them to apply such skills and behaviours in their work-related activities; in turn, this may improve output and increase organisational effectiveness and performance (Way, 2002). Such a practice can be a source of competitive advantage in relation to various industries (Pfeffer, 1998). Examples of employees' training programmes are: job rotation, understudy assignment, classroom lecture, formal instructions within the company, films and videos, simulation exercises, and vestibule training (DeCenzo and Robbins, 2005).

The majority of the studies conducted in relation to the HRM-performance link have considered training in terms of their HR practices mixtures (Pfeffer, 1998). Empirical results have confirmed the crucial role of training in various organisational outputs. For instance, Guthrie (2001) states that training is negatively associated with employee turnover, with Kalleberg and Moody (1994) similarly emphasising that training has a positive impact on organisations in terms of product quality, product development, and market share and growth sales. Arthur (1994) indicates that the more the investment in training, the lower the degree of turnover. Additionally, following the examination of the impacts of HRM on the perceptions of organisational performance in the context of profit and non-profit US firms from the National Organisation Survey, Delaney and Huselid (1996) found a strong association between training and

organisational performance indicators. Verburge (1998) also found that training is positively related with market share, perceived profit, and investment in the future. In another work by Wright *et al*. (2003), the relationship between HRM and organisational performance was explored in the case of 50 business units in the US food services company. The results proved that HR practices, including training, are positively related to the profit of the company. Furthermore, Chand and Katou (2007) studied the impact of HRM practices on organisational performance in the Indian hotel industry, the results of which show that formal training system as one of the HR practices chosen by Chand and Katou was positively related to profitability and growth. Furthermore, training was also proven to be one of the HR practices affecting the profitability of companies by Joseph and Dai (2009). Lately, Moideenkutty *et al*. (2011) and Razouk (2011) have also confirmed training as one of the core HR practices that could affect the profitability of the companies. Organisations can invest in their staff by insuring effective formal training programmes which, in turn, will improve the overall organisational performance.

3.4.4 Formal Performance Appraisal System

As the essential logic behind strategic HRM is to link HR practices and policies with the overall strategic issues in organisations, DeCenzo and Robbins (2005) argued that managers should establish performance standards in accordance with organisations' strategic goals in order to perform a successful appraisal process. As a result, managers are able to compare employee actual performance with established standards to evaluate their performance. Such a connection between HR practices and strategic issue in organisations is the main reason behind researchers referring to such practices as 'strategic HR practices'. A formal appraisal system is viewed as a very crucial practice as it has three main purposes in organisations: strategic, administrative, and developmental (Noe *et al*., 2006).

In addition, the formal performance appraisal system has become an essential part in research that has been conducted on bundles or systems of HR practices (for example, Huselid, 1995; Wood, 1996; Wright *et al*., 2003). HRM researchers have found positive effects for this practice on different organisational measures: for instance, in

his study of 275 French SMEs, Razouk (2011), found positive associations between such a practice and perceptual measures of organisational performance. Such a practice was also proven to be effective and positively associated with subjective measures of organisational performance by Joseph and Dai (2009). Performance appraisal system was also found as an effective practice, which could positively affect organisational performance by Lee (2010).

3.4.5 Incentives and Rewards

As argued in the expectancy theory (Vroom, 1964), if organisations provide their employees the rewards they expect and desire, such employees will then perform their jobs in such a way that will bring them these rewards. Incentives and rewards are very important drivers for employee behaviours and motivations. This practice is one of the most important HR practices helping to make employees feel satisfied and perform better within their organisations. In this context, incentives and rewards include, for example, promotions, pay increase, appreciation for good efforts, valuable fringe benefits, interesting and challenging work, friendly and supportive colleagues, job security and prestige of work. One of the most popular classifications of incentives and rewards is proposed by DeCenzo and Robbins (2005), who divide this practice into two main types: intrinsic incentives and rewards and extrinsic incentives and rewards. They propose a structure for incentives and rewards where all the practices related to pay increase, promotions, cost-of-living increase, profit sharing, merit plans, valuable fringe benefits, and work prestige under the term ‘extrinsic incentives and rewards’; in contrast, all practices related to social activities, opportunities to personal growth, interesting and challenging work, supportive work environment, freedom and more responsibility are termed ‘intrinsic incentives and rewards’.

The effectiveness of this practice has been proven in the HRM literature as it has positive impacts in terms of a variety of organisational outcomes. A large number of researchers have considered such practices to be one of the topmost HR practices in their studies (for example, Arthur, 1994; MacDuffie, 1995; Huselid, 1995; Delery and Doty, 1996; Lee, 2010; Razouk, 2011). Delery and Doty (1996) found it to be a strong

predictor of organisational performance. Moreover, Lazear (1996) established that some of these practices are positively related to productivity. In addition, Dowling and Richardson (1997) emphasised the role of pay system as one of incentives and rewards components on employee motivations. Moreover, Lee *et al*. (2010) has also found positive associations between employees' incentives and subjective performance indicators such as product quality, production cost, product delivery, and production flexibility. Most recently, Razouk (2011) confirmed the positive effects of various extrinsic incentives and rewards on perceptual performance indicators, namely innovation, profitability, and quality of social climate.

To sum up, all of the aforementioned practices have the greatest support in the literature, and demonstrate their significant effects in terms of various empirical studies. In addition, such practices are comprehensive enough, very common and regularly used in research, and almost completely cover all the tasks that could be under the responsibility of HR directors and professionals. More to the point, such practices can be found within any organisation with a HR department or basic HR functions. Such HR practices may help in terms of building the basic theory on HRM, and are expected to produce positive impacts on organisational performance in the targeted companies. As a result, the current research hypotheses on HR practices are based on the previous five strategic HR practices.

3.5 Organisational Performance and the Mechanism of HRM-Performance Link

The majority of the studies centred on the HRM-performance link have either used subjective measures or only some financial indicators when striving to assess organisational performance. It would be more appropriate and rewarding to use multi-dimensional measures for organisational performance as these measures could include various objective variables to reduce the probability of common method variance (Wall and Wood, 2005) and to thereby avoid misleading normative and descriptive theory-building (Lumpkin and Dess, 1996). Wall and Wood (2005) argue that an important limitation in HRM-performance research is that both variables (HRM and performance) are measured using the same source. In actual fact, objective measures

reflect the economic rationality which emphasise outcomes, such as productivity and other financial indicators. Subjective measures, in contrast, reflect the normative rationality, which notably emphasise more behavioural and societal aspects of organisational performance.

This research employs a multi-dimensional concept of performance. Following the classification of Dyer and Reeves (1995), the performance outcomes could be HR-related outcomes (for example, turnover, absenteeism, job satisfaction, commitment), organisational outcomes (productivity, quality, service, efficiencies etc.), and financial accounting outcomes (profits, sales, return on assets, return on investment, etc.). The present work takes into consideration employee turnover as a HR-related outcome, and return on assets (ROA) and return on equity (ROE) as objective financial outcomes. ROA has been used as a measure of efficiency and resource exploitation in organisations (Keats, 1988; Snell and Youndt, 1995); ROE, in contrast, represents the eventual measure of the strength of any financial organisation (Earle and Mendelson, 1991; Richard and Johnson, 2001). Such measures have been used extensively to reflect the performance of the companies—not only in the field of HRM but also in other fields, such as strategic management and marketing. These measures are considered to be very significant measures and a good reflection of the financial situation of the companies. HRM researchers have employed such financial measures, but mostly in a subjective way (for example, Snell and Youndt, 1995; Lam and White, 1998; Berg *et al*., 1999; Trust, 2001; Richard and Johnson, 2001; Rodriguez and Ventura, 2003). ROA and ROE reflect the objective side of the financial performance of the targeted companies in this research.

Employee turnover, on the other hand, has been used extensively in HRM literature as an important behavioural performance outcome (for example, Arthur, 1994; Shaw *et al*., 1998; Ramsey *et al*., 2000; Richard and Johnson, 2001; Guthrie 2001; Way, 2002; Bat, 2002; Chang and Chen, 2002; Guest *et al*., 2003; Paul and Anantharaman, 2003; Wood and De Menezes, 2008). As is evident from the review of the previous empirical studies in the literature, employee turnover has proven its strong presence in the studies into the HRM-performance link as a HR-related outcome, which thus indicates that employee turnover is viewed as an important variable outcome. Moreover, the

inability to retain competent and skilled employees has been identified as a barrier to organisational success (McEvoy, 1984; Holt, 1993). The relationship between employee turnover and HR practices is relatively direct; hence, effective HR practices could directly affect employee turnover. As stated earlier, Dyer and Reeves (1995) have proposed that HR practices would most probably directly affect the HR-related outcomes, followed by organisational, financial and market outcomes. The logic behind this is that HR practices have their most direct impact on employees' behaviours and attitudes, which could thus result in low turnover and subsequently generate high financial outcomes. As a result, employee turnover could be taken into account in regard to the HRM-performance mechanism to test its impact on financial performance. This research examines this theoretical proposition directly by examining the relationship between HR practices and performance, and indirectly by dealing with employee turnover as a mediating variable between HRM and financial performance. Based on the justifications outlined above, we hypothesis the following:

H1: HR practices—recruitment and selection, internal career opportunities, formal training system, formal performance appraisal system, incentives and rewards—reduce employee turnover.

H2: HR practices (mentioned in H1) positively relate to financial performance. The positive financial performance can be measured in increased Return on Assets (ROA) and Return on Equity (ROE).

H3: Employee turnover mediates the relationship between HR practices and financial performance.

The first hypothesis tests the direct relationship between HR practices and employee turnover as a behavioural (subjective) aspect of organisational performance. The second hypothesis tests the direct relationship between HR practices and the objective financial performance of the companies measured by ROA and ROE. The third hypothesis tests the indirect relationship between HRM and organisational performance, and deals with employee turnover as a mediation variable, and so it is

supposed that HR practices will both directly and positively affect employee turnover which, in turn, will generate better financial outcomes.

3.6 Core Aspects of Strategic HRM and Financial Performance

In the strategic HRM literature, there two core aspects of SHRM; these are the integration or the involvement of HR functions into the business and corporate strategy, and the devolvement of HR practices execution to line managers. Literature on strategic HR involvement and devolvement is intimately linked with the adherence to the notion of strategic HRM. Thus, if it is true that, in the modern-day corporate world, HR is the valued asset and has to be used optimally to achieve organisation goals, then to do so requires effective involvement and integration within the strategic activities of the firm, as well as the devolution of the day-to-day HR issues to line managers. The issues of strategic HR involvement and HR devolvement are now well-documented in the literature. Teece *et al*. (1997) argues that the integration of HRM into organisational strategies result in enhanced competences and make organisations more effective and efficient. Baker (1999) emphasises that the alignment between HRM and organisational strategy can yield many benefits such as higher job performance, cost-effectiveness, increased employee commitment and innovation. Some authors, in contrast, have found that HR devolvement facilitates organisations in terms of solving many problems at the lower level and accordingly leads to better change management and also helps build responsible line managers (Budhwar, 2000). Furthermore, it is argued that a good relationship between a line manager and HR manager will help the latter to understand and realise the problems in different organisational functions much better (Sullivan, 2003). The issues of strategic HR involvement and devolvement can also make HR managers and professionals play the role of internal consultancy more than traditional roles.

The end result of effective integration of various HR units into the overall scheme of an organisation and the devolvement of HR routine issues would be the enhanced organisational performance. However, although theoretically very plausible, this is a complex topic on which very few studies have been conducted on the core aspects of SHRM (for example, Khatri, 1999; Budhwar, 2000; Andersen *et al*., 2007). As noticed

in the literature, organisational performance remains one of the most imprecise and loosely defined constructs (Rogers and Wright, 1998); there is no consensus amongst researchers concerning what can best reflect or constitute the performance of the companies. Despite several attempts to do so, a fool-proof method is still largely elusive (Guest, 1997; Rogers and Wright, 1998; Paauwe and Boselie, 2005).

Given these complications, it is not surprising that only a few studies have been conducted on the impacts of strategic HR involvement and HR devolvement on the financial performance of organisations. Mostly, the research is concentrated on evaluating the level of strategic HR integration and HR devolvement in organisations (for example, Budhwar and Sparrow, 1997; Khatri, 1999; Budhwar, 2000; Andersen *et al*., 2007; Othman, 2009). We have not witnessed any work that has investigated the impact of strategic HR involvement and devolvement, from the perceptive of HR directors, on the objective bottom line issues in organisations; therefore, we do not as yet have an idea if such issues have an impact on the financial results of the companies.

Previous studies (Huselid, 1995; Delery and Doty, 1996; Green *et al*., 2006; Lee *et al*., 2010) have investigated the strategic HR involvement issue by examining the 'external fit'—in statistical terms—between HRM and the organisational business strategy as opposed to examining the role of HR directors in the strategic involvement process and its impact on the overall performance of the companies. The conventional approach, although a useful technique, is described as being complicated to understand, thus making the practical implementation and the theoretical development of issues problematic (Hutchinson *et al*., 2001; Wright *et al*., 2003; Gerhart *et al*., 2006; Guest, 2011). Guest (2011), in particular, argues that, by raising the bar in terms of the complexity of research methods and the statistical analysis used in HRM-performance research, a growing number of HRM researchers may feel excluded from the field. He also suggests that, by being simple—especially in relation to the issue of integration between HR functions and business and corporate strategies—future studies would help HR directors and professionals to easily implement innovative management practices within the workplace. In the same vein—but in a different approach—some authors (Budhwar, 2000; Andersen *et al*., 2007) urge researchers to first evaluate the level of strategic HR involvement and devolvement HR directors are

playing in organisations, and to then investigate their impacts on bottom-line indicators, such as ROA and other profitability indicators considered able to objectively reflect the performance of the companies.

The issue of involving the HR directors of an enterprise in the strategic affairs of the company is a hugely important, and is presently a hotly debated issue in the academic and corporate world. The importance of this issue arises from the argument that HR directors who are strategically involved in the functioning of the organisation with devolved power in their hands will contribute positively to the growth of the company; this argument is tested in the current research and should occur in the shape of reduced employee turnover and better financial performance for the companies captured by ROA and ROE. Based on the previous justifications and discussions, we hypothesise the following:

H4: There is a negative relationship between strategic HR involvement and HR devolvement and employee turnover. Higher the involvement and devolvement, lower is the employee turnover.

H5: There is a positive relationship between strategic HR involvement and HR devolvement and financial performance. Higher the involvement and devolvement, higher is the financial performance measured by ROA and ROE.

The fourth hypothesis is related to the behavioural (subjective) aspects of organisational performance as we seek to establish whether there is a relationship between the issues of strategic HR involvement and HR devolvement and employee turnover. The fifth hypothesis, in contrast, takes into account the objective aspect of performance, which is the financial result of the companies as a result of increased strategic integration of HRM and the devolution of day-to-day HR issues in the working of the organisation.

3.7 The Complementarities of HR Practices and Financial Performance

As was highlighted through the HRM literature, researchers have examined the impacts of individual or specific bundles of HR practices on performance in

consideration of the presumption that they are the appropriate level of analysis for examining the impact of organisation-level performances (Delaney and Huselid, 1996; Razouk, 2011). As stated previously, a bundle of practices should generate greater effects as the whole is greater than the sum of its parts. For instance, to recruit and select good employees without training them, or train and develop them without giving them the authority to take decisions, will produce few effects; whereas implementing the three practices together would produce greater effects (Wall and Wood, 2005). This is in contrast with individual HR practices which, in isolation, can produce only a limited amount of competitive advantage (Barney, 1995). The idea of internal consistency amongst HR practices has been generated from the theory of the resource-based view of the firm because such practices bundles should be valuable, rare, and inimitable to provide a sustained competitive advantage. Delery and Shaw (2001) emphasised that the logical combinations of HR practices in systems or bundles approach are difficult to imitate by other competitors and they are more valuable than a single practice in isolation. The notion of complementariness is one of the core theoretical concepts in SHRM, although it can be undoubtedly noticed from the previous empirical work that researchers have not yet provided a strong and forceful evidence for the effects of HR bundles on organisational performance, and little progress has thus been made in this regard (Guest, 2011). Moreover, it has also been argued in the literature that HRM-performance research has failed to consistently support or otherwise establish the efficacy of fit (Panayotopoulou, *et al*., 2003); therefore, the internal fit amongst HR practices also requires further support and empirical evidences in order to prove the effectiveness of this argument in strategic HRM theory (Macky and Boxall, 2007). Following on from these arguments in the literature, we hypothesise the following:

> *H6: There is a positive relationship between the bundles or complementarities of HR practices and financial performance. The positive financial performance can be measured in increased ROA and ROE.*

3.8 Control Variables on the HRM-Performance Link

It is essential to include control variables in the present research owing to their possible associations with dependent variables. Importantly, most of the empirical work on the HRM-performance link has controlled third factors as such variables could establish an association between human resource practices and organisational performance. Studies employing control variables produce better and more valid results than others. With this in mind, common control variables that can be used are firm size, firm age, R&D intensity, and the country of ownership. Literature review shows that firm size and firm age are commonly used control variables in the studies on the HRM-performance link. Such control variables can cause significant variations in the impact of HRM practices on organisational performance. Firm size, in particular, has been found to be an important control variable (Boselie and Wiele, 2002; Collins and Clark, 2003; Katou and Budhwar, 2010; Moideenkutty, 2011) as large organisations, for example, have larger economies of scale than small organisations (Brewster *et al.*, 2006). As a result, this work considers firm size and firm age as control variables in the context of all the stated hypotheses in the present research.

3.9 HR Practices and Perceived Financial Performance

In view of the fact that most of the empirical work carried out in the context of HRM-performance research favours use of subjective measures of performance (for example, Delaney and Huselid, 1996; Wright *et al.*, 1999; Fey *et al.*, 2000; Green *et al.*, 2006; Joseph and Dai, 2009; Katou and Budhwar, 2010; Razouk, 2011), this research tests the relationship between HR practices and perceived financial performance. The literature shows that most HRM researchers have employed subjective measures with the aim of assessing organisational performance in their studies as they deem the validity of such measures to be adequate (Razouk, 2011). In this regard, some researchers have found positive connections between the subjective and objective measures of organisational performance (for example, Dess and Robinson, 1984; Geringer and Hebert, 1991; Powell, 1992). Furthermore, subjective measures of organisational performance enable managers to factor in the companies' objectives when evaluating their performance. It is very factual that such measures

may introduce limitations through the increased measurement errors and the potential bias, although the benefits are seen to outweigh the risks (Fey *et al*., 2000).

In order to get a sense of perceived financial performance, respondents were directly asked to rate or evaluate the main organisational performance indicators in their companies compared to their rivals in the same industry. Based on the justifications outlined above regarding the perceived measures of financial performance, we hypothesise the following:

H7: There is a positive relationship between HR practices (mentioned in H1) and perceived financial performance.

3.10 The Role of the HR Director

Modern-day HR directors are engaged in several HR initiatives with the aim of enhancing organisational performance and make their firms competitive. HR directors are increasingly realising that employees are key resources enabling organisations to gain a competitive advantage (for example, Becker and Huselid, 1998; Pfeffer, 1994, 1998), which has made them face real challenges in their organisations where they have to acquire and develop world-class work team competencies. Allied to the realisation of such HR directors is also the fact that there is now a burgeoning—but, as yet, inconclusive—literature on the link between the SHRM and positive firm performance, regardless of the way in which it is measured (Huselid, 1995; MacDuffie 1995; Huselid and Becker, 1996; Delery and Doty, 1996; Delery and Shaw, 2001; Wright and Boswell, 2002; Razouk, 2011). The drivers of such changes are HRM directors, who have the focus of operations now having (supposedly) changed from routine functions to adopting a dynamic and strategic emphasis.

There is now increasing evidence in the literature to support the notion that, as a result of market pressure to be competitive, the role of HR directors has become much more strategic as opposed to simply being concerned with routine functions that a personnel manager performed until recently (Huselid, 1995; Storey, 1995). It is therefore stated that the strategic nature has taken the shape of HR directors by way of their

involvement in the overall strategic management process and board meetings, and also by permitting them to delegate routine HR functions to junior staff for them to concentrate on strategic issues of long-term importance (Carroll, 1991; Wright and Boswell, 2002). Moreover, several authors (for example, Budhwar, 2000; Andersen *et al*., 2007) urge researchers to first evaluate the level of strategic HR involvement and devolvement that HR directors play in organisations before investigating their direct impact on organisational performance. Taking a cue from the literature and based on the above discussions and justifications, we state the following general hypothesis and its sub-hypotheses when exploring the role of HR directors in the targeted organisations, and validate what is argued in the HRM literature in terms of the role of HR directors becoming much more strategic in its nature:

H8: There is a strategic shift in the HR directors roles' increasing involvement in the affairs of the business by way of their involvement in the strategic functions and by permitting them to delegate routine HR functions to junior staff for them to concentrate on strategic issues of long term importance.

This is a general hypothesis about the strategic nature of the role of HR directors. This hypothesis is divided into the following sub-hypotheses:

$H8_1$: The role of the HR director in a modern-day organisation has moved away from the routine functions (such as headhunting, training, job evaluation) to strategic functions (such as contributing to planning and implementing the business and corporate strategies and organisational designs).

$H8_2$: The role of the HR director has distinctly changed over the past few years, thus becoming more influential in strategic decision-making.

$H8_3$: The HR director becomes influential with the board, and regularly attends board meetings. This is a logical corollary to $H8_1$ and $H8_2$.

$H8_4$: The HR director now routinely delegates day-to-day HR work to line/junior managers for them to be able to concentrate on strategic functions.

Table 3.1: List of research hypotheses

H1	HR practices—recruitment and selection, internal career opportunities, formal training system, formal performance appraisal system, incentives and rewards—reduce employee turnover.
H2	HR practices (mentioned in H1) positively relate to financial performance. The positive financial performance can be measured in increased Return on Assets (ROA) and Return on Equity (ROE).
H3	H3: Employee turnover mediates the relationship between HR practices and financial performance.
H4	There is a negative relationship between strategic HR involvement and HR devolvement and employee turnover. Higher the involvement and devolvement, lower is the employee turnover.

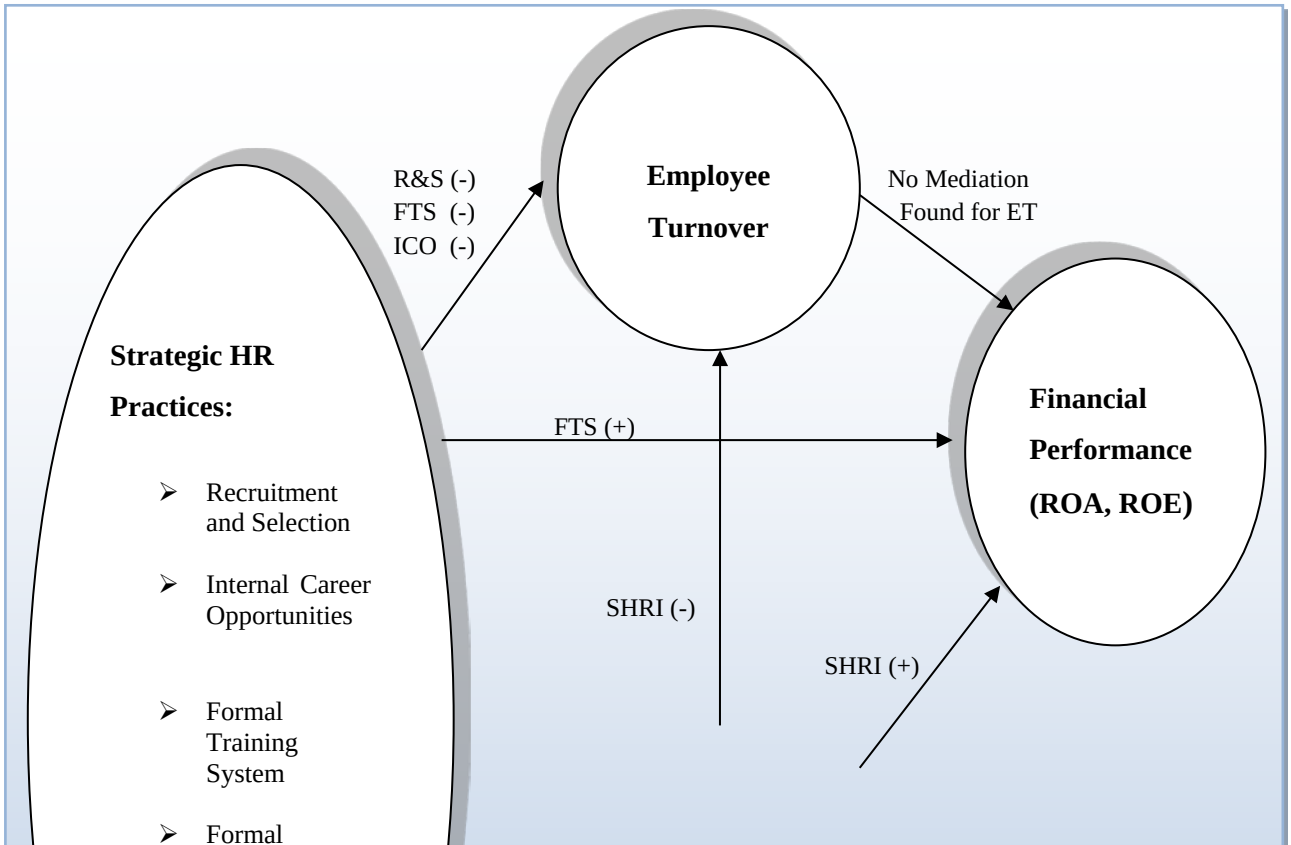
H5	There is a positive relationship between strategic HR involvement and HR devolvement and financial performance. Higher the involvement and devolvement, higher is the financial performance measured by ROA and ROE.
H6	There is a positive relationship between the bundles or complementarities of HR practices and financial performance. The positive financial performance can be measured in increased ROA and ROE.
H7	There is a positive relationship between HR practices (mentioned in H1) and perceived financial performance.
H8	There is a strategic shift in the HR directors roles' increasing involvement in the affairs of the business by way of their involvement in the strategic functions and by permitting them to delegate routine HR functions to junior staff for them to concentrate on strategic issues of long term importance.

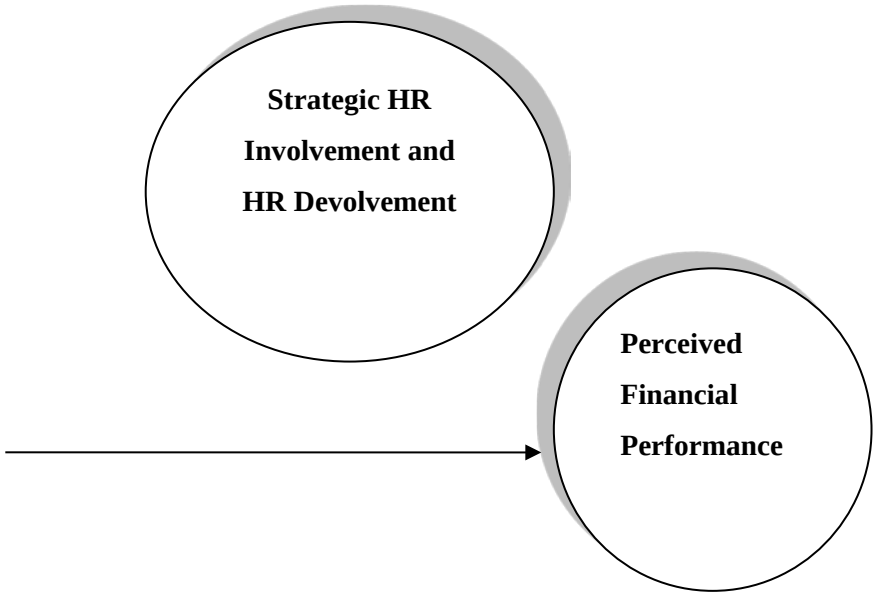
Source: Developed by the author.

3.11 Theoretical Model of HRM-Performance

Based on the hypotheses developed in the previous sections, the theoretical framework on the HRM-performance link can be schematically outlined as shown in Figure 3.1.

Figure 3.1: Theoretical framework of strategic HRM and organisational performance





Source: Developed by the author

3.12 Summary

This chapter has explained the hypotheses-development process and the theoretical framework. It has been claimed in the literature that, in order to develop a prediction in terms of the HRM-performance link, we need to consider two main steps: first, significant HR practices should be identified and the arguments that these individual HR practices are linked with organisational performance should be presented. We have identified which HR practices are used in the present research and accordingly discussed the way in which such practices are positively and strongly linked with different organisational outcomes. In the context of this work, we consider the following HR practices: recruitment and selection; internal career opportunities; formal training system; formal appraisal system; and incentives and rewards.

A multi-dimensional concept of performance is used, covering employee turnover and actual and perceived financial performance. We also test the indirect relationship between HRM and organisational performance by mediating the relationship through employee turnover as a behavioural or HR-related outcome. The argument of the horizontal or internal fit is also tested by bundling the HR practices and examining

their impact on financial performance. Moreover, we also investigate and assess the effects of the core aspects of strategic HRM and accordingly explore the role of HR directors to ascertain if HR directors are playing a strategic role in their organisations, as argued in the HRM literature. The research theoretical framework on the HRM-performance link is schematically outlined in the final section.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

This chapter explains the research methodology and the research design used to empirically test the theoretical framework presented in the previous chapter. The present chapter also explains the main methods used for data collection, the population and sampling issues, and the major issues related to the research instrument, such as survey development, pilot study, and survey administration procedures. In addition, it discusses the measurement of the research variables and accordingly describes the statistical techniques utilised in the present work. The main ethical considerations related to the current research are stated in the end.

4.2 Scientific Research Paradigms and Rationale for Research Methodology and Design

Research can be described as an organised and systematic effort to scientifically investigate a specific problem, undertaken with the purpose of finding answers or solutions to it (Sekaran, 2003). The entire process by which we attempt to solve problems is referred to as 'research', which involves a series of well-thought-out and carefully executed activities that enable us to know how the problems can be solved, or at least minimised. Research therefore encompasses the processes of inquiry, investigation, examination, and experimentation. In this section, we discuss the different research paradigms used in research and the rationale for the current research methodology.

4.2.1 Rationalism vs. Empiricism

Rationalism is the view that rational intuitions and cognitive revolution are the most important way of acquiring knowledge. Rationalists share the view that there is innate knowledge. Empiricism, in contrast, is the view that experiences, observations or logic and sense data are the only or the most significant way of acquiring knowledge.

Empiricists share the view that there is no such thing as innate knowledge.

Hjorland (2005) has argued that rationalism does not recognise the role of experiences and empirical work; the model science for rationalism was geometry. Geometry was the example that demonstrated the possibility of developing a whole science without making any observations or experiences. Moreover, rationalism tends to adopt a top-down analysis in the processing of information, and building a set of data from re-established categories. Additionally, Hjorland indicated that, regardless of the rationalism forms, it is an epistemology that gives emphasis to the role of conceptual clarity and evidence, which prefers deductive methods rather than inductive methods. Alston (1998), on the other hand, claimed that empiricism is the epistemological perspective that experiences and observations are the most important or the only way to acquire knowledge. Hence, the basic methods of empiricism are observations and induction. Empiricism is based on bottom-up strategy in the processing of information (Hjorland, 2005). Notably, however, in the context of the present research, it is considered as integration between rationalism and empiricism—especially that both methods are used in research today; rationalism for theory and hypotheses-generation, and empiricism for data collection and testing.

4.2.2 Subjectivism vs. Objectivism

Subjectivism is an ontological (the study of being or what is) position that asserts social phenomena and its meanings as not being separate from social actors (Bryman and Bell, 2007). Ratner (1997) argued that subjectivism includes processes denoted by the terms mental, mind, conscious, experience, agency, intentionality, thinking, feeling, remembering, interpreting, understanding, and learning. He also indicate that subjectivism dominates qualitative methodology, where the subject is free to express whatever subjective idea he or she desires, and where the researcher is free to subjectively interpret data.

Objectivism, in contrast, is an ontological position asserting that social phenomena and the categories used in our lives and their corresponding meanings have an existence independent or separate from social actors (Bryman and Bell, 2007).

Furthermore, the conclusions drawn through the interpretation of the results of data analysis should be objective, meaning that the conclusions should be based on the facts of the findings derived from actual data—not subjectively from our minds, which is the way of conducting quantitative researches (Sekaran, 2003). Based on this, the research is considered to be objective as it examines the main hypothesis, which states that organisations implementing the strategic HRM approach achieve a higher performance than organisations that do not; this main hypothesis is supported or otherwise rejected by scientific data-based research findings without any effect of subjective or emotional values.

4.2.3 Positivism vs. Phenomenology

Bryman and Bell (2007) have argued that positivism is an epistemological (the study of knowledge) position that asserts applying the procedures and methods of the natural sciences to the study of social reality. Furthermore, they indicate that positivism takes into consideration the following principles: (1) the purpose of positivism is to generate hypotheses that can be scientifically tested (the principle of deductivism); (2) science should be conducted in a way that is value free (objectivity); and (3) there is a clear difference between scientific and normative statements, and the former are the accurate and true domain of the scientist.

In the social science and its philosophy, positivisms support emphasis on quantitative data and accurately formulate theories, the doctrines of behaviourism, and operationalism and methodological individualism (Kincaid, 1998). Nowadays, the word ‘positivism’ is commonly used synonymously with empiricism (Hjorland, 2005). As a result, it can be concluded from the previous discussions that we can link the terms empiricism, deductivsim, objectivism, and positivism together as all of them advocate the application of the natural sciences to the study of social reality, and they emphasise that the social phenomena and their meanings have an existence that is independent or separated from social actors.

Phenomenology, on the other hand, is a philosophical movement based on the investigation of phenomena (i.e. the appearances of things, or things as they appear in

our experience, or the way in which we experience things, or things as comprehended by consciousness) rather than on the existence of anything outside of human consciousness (Sokolowski, 2000). Furthermore, in terms of phenomenology, the reality is socially constructed and the researcher is not separated or independent of what is being observed. Phenomenology is subjective more so than objective, and is used in qualitative and inductive studies (Bryman and Bell, 2007). As a result, it can be stated from the above discussions that the terms 'rationalism', 'inductivsim', 'subjectivism' and 'phenomenology' can be linked together as all of them consider things from a person's point of view, and further emphasise that the social phenomena and their meanings are continually accomplished by social actors.

The present work follows the positivism approach in regard to conducting research. This study has the principles of positivism as described in literature, and generates hypotheses where they are scientifically tested thorough the scientific research procedures (the principle of deductivism). Additionally, it is considered to be an objective research, as stated earlier, which is one of the most important principles of positivism.

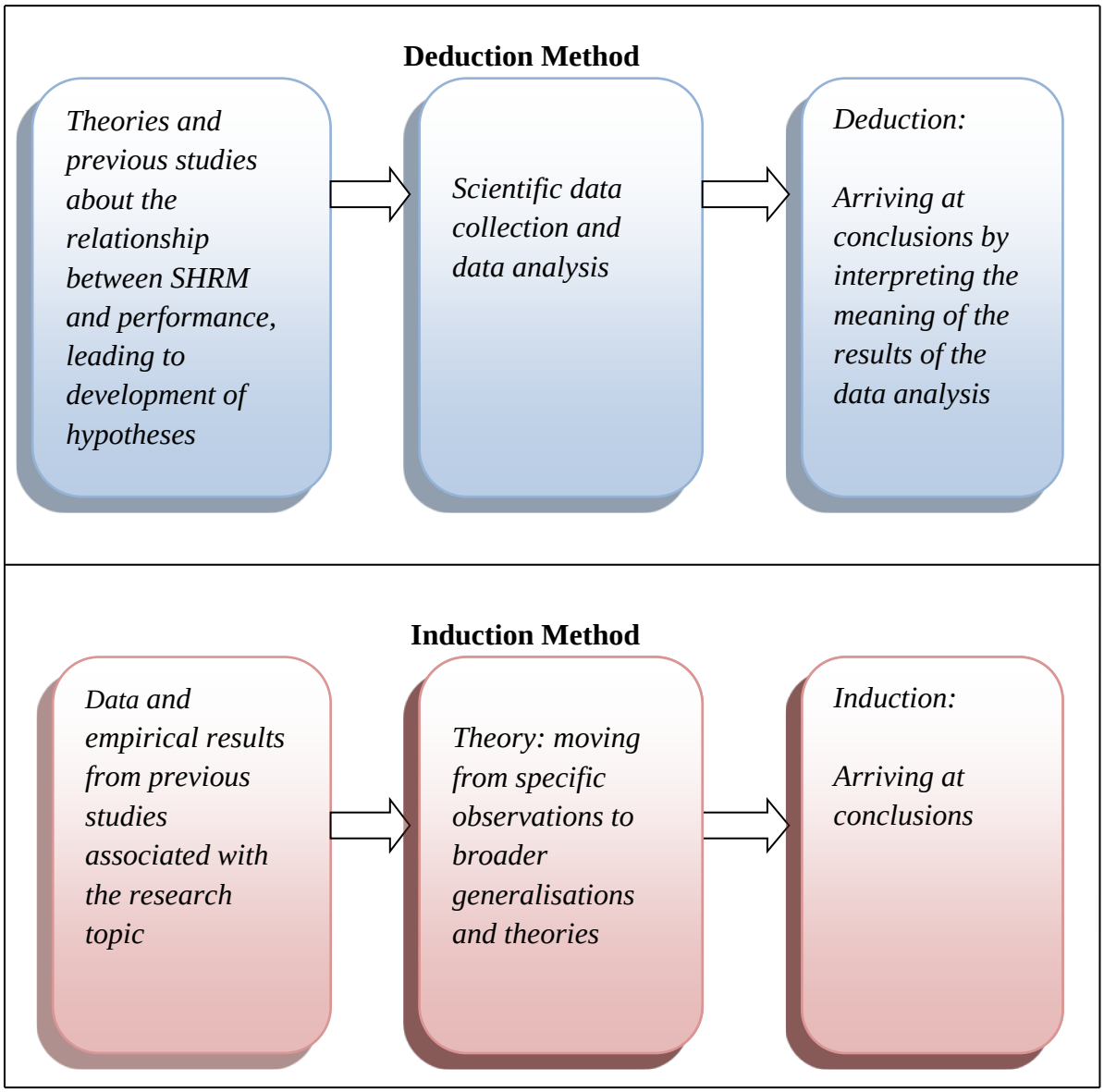
4.2.4 Induction vs. Deduction

Deduction is the process by which we arrive at a reasoned conclusion by logical generalisation of a known fact. Induction, on the other hand, is the process where certain phenomena are observed and conclusions are reached; or, in other words, we logically establish a general proposition based on observed facts (Sekeran, 2003). The researcher in the deductive theory, on the basis of what is known concerning a particular field and other theoretical considerations, deduces hypotheses that must be subjected to empirical scrutiny and this theory associated with quantitative research; in induction theory, on the other hand, researchers draw their conclusions from empirical observations or observed facts, which is a theory associated with qualitative research (Bryman and Bell, 2007).

Deduction and induction methods are shown below in Figure 4.1. This research follows the deduction method, beginning with a theoretical framework (a network of

connections amongst the study variables), the formulation of hypotheses, the operationalisation of concepts so they can be measured, data collection, data analysis, and logical deduction from the results of the study.

Figure 4.1: A schematic view of deduction and induction methods



Source: Developed by the author

4.2.5 Qualitative, Quantitative or Triangulated Research

Literature on qualitative and quantitative research (for example, Creswell, 1994; Ratner, 1997; Sekaran, 2003; Trochim, 2006; Bryman and Bell 2007) distinguishes

between the main research approaches as follows:

1. Quantitative research follows a deductive research process and involves the collection and analysis of quantitative (i.e., numerical) data to identify statistical relations of variables. Common quantitative research methods include: content (relational) analysis, experiments, observations (scaled ratings, checklists), and surveys (closed-ended, validated scales).

2. Qualitative research follows an inductive research process and involves the collection and analysis of qualitative (i.e., non-numerical) data to search for patterns, themes, and holistic features. Common qualitative research methods include: content (conceptual) analysis, focus groups, observations (narrative, comments), interviews, and surveys (open-ended). Furthermore, qualitative research is used to explore and understand people's beliefs, experiences, attitudes, behaviours, and interactions.

3. Triangulated research combines or mixes quantitative and qualitative research techniques in a single study. Two sub-types of mixed research includes mixed method research—using qualitative and quantitative approaches for different phases of the study—and mixed model research—using quantitative and qualitative approaches within or across phases of the study.

The present research considers the quantitative approach to answer the main research question and to achieve its objectives. Table 4.1 presents the characteristics and justifications of the current research as a quantitative research:

Table 4.1: The characteristics and justifications of the current research as a quantitative research

Characteristic	**Justification**
Approach: Quantitative Research	It involves collection and analysis of quantitative (i.e., numerical) data to identify statistical relations of variables.
Type of Reasoning: Deductive	It starts with a theoretical framework, formulation of hypotheses, operationalisation of concepts, data collection, data analysis, and logical deduction from the results of the study.
Link with concepts: Identification and investigation	It is a correlational research, where the researcher identifies the important variables associated with the subject, and after conducting a statistical analysis, he might find some positive relationships between the proposed variables.
Action: Testing	Use of proper statistical tools to test the hypotheses.
Outcome: Accepting the theory	The proposed relationships are accepted after testing the hypotheses and finding some positive relationships.
Approach to validity	Truth seen as objective : Generalisability
Nature and source of data	Numerical data (generated by statistical processes). It come through conducting a questionnaire (including open-ended questions) so that it can be coded and transferred into numerical data.
Method categorized by activity	Non-Experimental research; we investigate the conditions as they really are without an attempt to change any of them

Source: Developed by the author

4.3 Data Collection Methods

In accordance with our research strategy, two main data collection methods are used in this work: primary and secondary data. This section aims to illustrate the nature of

primary and secondary data and the sources which have these data obtained from.

4.3.1 Primary Data

Primary data are new data collected specifically for the purpose of the research study. These data can be collected through different methods, such as interviews, observations and questionnaires (Saunders *et al*., 2003). For the current work, a detailed questionnaire was drafted to collect the primary data as we study the impact of strategic human resource management on organisational performance. Importantly, throughout this study, a questionnaire is considered to be a reformulated written set of questions to which employees—or whoever the target respondents may be—record their answers most likely in a closely defined alternatives (Sekeran, 2003). It is an effective and efficient data collection method when researchers know how and what to measure. Questionnaires are associated with both positivist and phenomenological approaches: whilst positivist approach advocate closed questions, the phenomenological approach, on the other hand, suggests open-ended questions (Collis and Hussey, 2003). This method of data collection could be distributed personally, by mail, or online.

The current research's primary data are related to SHRM variables: the role of HR directors, HR practices (recruitment and selection, training, internal career opportunities, performance appraisals, and incentives and rewards), strategic HR involvement and HR devolvement. In addition, the questionnaire includes a single question concerning employee turnover variable, with a special section also concerned with measuring the perceived financial performance. Our primary data have been garnered through a self-completed questionnaire, which has been filled in by the HR directors in the targeted companies. The process of the questionnaire development and administration is explained later in this chapter.

4.3.2 Secondary Data

Secondary data are crucial for most organisational research and refer to information gathered by someone other than the researcher conducting the current study. For

research purposes, such data can be collected from documentary-based secondary data that refer to information gathered from previous similar researchers which have also incorporated primary data and have already been analysed for their original purpose (Saunders *et al*., 2003). Secondary data can be gathered by different sources such as: books, periodicals, government sources, case studies, regional publications, companies' annual report, and media and commercial sources (Zikmund, 2003). Secondary data have various advantages, such as being considered cost- and time-effective, high quality, and easy to collect. Nevertheless, secondary data also have various limitations, including lack of data familiarity and complexity, no control over data quality, and the absence of key variables (Bryman and Bell, 2003).

In this context, we have used books, articles and case studies that are most related to the research topic in order to identify the main research problem, build up a theoretical framework, and accordingly formulate the research hypotheses. In addition, as we study the impacts of SHRM on organisational performance, part of the companies' performance is based on their financial data. As a result, we have obtained an access on the financial data of the companies through Amman Stock Exchange (ASE) database. Once the data from the survey were collected, a matching exercise with the financial and contextual data included in ASE database was conducted. The names of the companies which have completed the questionnaires were searched for through the ASE database, and the data relating to their financial performance, firm age, and firm size were downloaded. These data were then added to the file containing the previously gathered data from the questionnaires on SPSS. These financial data are return on assets (ROA) and return on equity (ROE) for the year 2007. Fortunately, government policies and regulations require all the listed companies to report the financial data in a consistent manner, thus making the inter-firm comparisons meaningful and unbiased.

4.4 Population and Sample

Population refers to the entire group of people or events the researcher wants to investigate, whilst the sample is a subset of the population (Sekeran, 2003). Sampling is concerned with selecting an adequate number of elements (a single member of the

population) from the population so that a study of the sample can be carried out, facilitating understanding of the characteristics of its subjects (a single member of the sample), which enables generalisation for its population. Any sample should be statistically representative of its population in order to make generalisation of the results. Krejcie and Morgan (1970) provide a table that ensures a good decision for the sample size. Such a table helps researchers to easily make a decision in regard to the sample size needed for any population.

The target population of this research is the financial sector of Jordan. This sector is one of the largest and well-developed services sector in the country, and is known to be witnessing a great deal of deregulation which is attracting private investment from within the country and overseas. The CIA World Fact Book (2009) reported that Jordan's financial sector has been relatively isolated from the international financial crisis owing to its limited exposure to overseas capital markets. Additionally, this sector compromises the highest percentage of the total GDP compared with other sectors in the country. A count of all the firms operating in the financial sector revealed a population of 104 firms in banking, insurance companies, real estate, brokerage, and other financial services. The unit of analysis in this research is the organisation, with the targeted respondents including HR directors in the targeted companies, following almost all the work that has been conducted in SHRM field. Such firms are all listed on Amman Stock Exchange (ASE). During the analysis stage, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was conducted so as to make sure that statistical tests are appropriate and reliable for the sample size. Results of the tests are provided in the next chapter. All 104 firms were contacted in person, 99 of which agreed to participate in the survey.

The researcher distributed the questionnaires in person amongst HR directors in the targeted companies, which made the response rate very high. Sekeran (2003) claims that, when the survey is confined to one small area and organisations are willing to accept questionnaires by hand, the best way of administering the questionnaires is in person. The main advantage of collecting the data in person is that the researcher can collect all the completed questionnaires within a short period of time. The researcher can also immediately clarify any doubts that the respondents might have on any

questions, and motivate the respondents to participate in the research and provide frank answers. In addition, researchers can also have the opportunity to introduce the research topic to the participants.

4.4.1 Description of the Sample

As stated earlier, the unit of analysis in the present research is the organisation, and the targeted respondents are HR directors in the financial industry of Jordan. In total, the Jordanian financial industry has 104 firms operating in banking, insurance services, real estate services, brokerage services, and other financial services such as financial investment and consultations. As this population is rather small, it was decided to approach all 104 firms, represented by their HR directors, to achieve the purpose of the current study; 99 of them agreed to participate in the survey. The research questionnaires have been distributed in person amongst HR directors in the targeted companies, which made the response rate very high.

Table 4.2 presents the demographics of the respondents (HR directors) in terms of the gender, age groups, level of education, and years of experience. With regard to the gender of the targeted respondents, 69.7% of the sample subjects are males, and 30.3% are females. As for the ages of the HR directors, 12.1% are aged between 18 and 29 years, 32.3% are aged between 30 and 39 years, 38.4% are aged between 40 and 49 years, and the remaining percentage of 17.2% are aged between 50 and 59 years. As for the level of education, 12.1% of the sample subjects have only college degrees, whilst 59.6% have bachelor's degrees. The remaining percentage of 28.3% have master's degrees, which was the highest educational level obtained by the surveyed HR directors. Finally, with regard to the duration of employment, 18.2% have worked for 4 years or less and 56.6% have worked for between 5 and 14 years. The remaining percentage of 25.3% have worked for between 15 and 24 years.

Table 4. 2 Demographics of the respondents

Demographic profile	Number of respondents	Valid percentage
Gender:		
Male	69	69.7
Female	30	30.3
Total	99	100
Age Group:		
18-29	12	12.1
30-39	32	32.3
40-49	38	38.4
50-59	17	17.2
60 or over	0	0
Total	99	100
Education:		
Some college	12	12.1
Bachelor	59	59.6
Master Degree	28	28.3
PhD	0	0
Total	99	100
Experience:		
1-4 years	18	18.2
5-14 years	56	56.6
15-24 years	25	25.3
25-34 years	0	0
35 or more years	0	0
Total	99	100

Source: Author's analysis of data

4.5 Questionnaire Development Process

As stated earlier, a survey method is used in this research; it is a commonly used method for data collection using standardised measurement tools (Darwish and Nusairat, 2008). A questionnaire was drafted to collect the primary data of this research concerning the variables of the role of HR directors, HR practices, strategic HR involvement, HR devolvement, employee turnover, and perceived financial performance. The following describes the process of the questionnaire development.

4.5.1 Questionnaire Design

We follow the extensive literature on questionnaire design (for example, Dillman, 1978; Moser and Kalton, 1979; Bickman and Rog, 1998; Bryman and Bell, 2003) to draft the research questionnaire. Researchers suggest that, in order to design a good quality questionnaire, key issues have to be taken into consideration such as wording of the questions, type and form of the questions, order and length of the questions, clear instructions, and the general appearance of the questionnaire. We took into account all of the aforementioned issues when designing the research main instrument. In the subject of the principles of wording, we focused on the appropriateness of the question content and the level of sophistication of the language used. Moreover, as we conduct a study in a completely different culture from the Western culture, we adapted and replaced many words to be much simpler and easier to understand within the cultural context. As a result, the questions posed, the language used and the wording of such questions were appropriate to tab respondents' perception and attitudes, and thus reduced the possibility that the responses would be biased. Markedly, we used closed questions as they help respondents to make quick decisions when answering amongst limited available alternatives. Furthermore, closed questions help researchers to easily code the information for the analysis. In addition, we avoided any kind of double-barrelled and leading questions, with all questions and answers written in short and simple sentences.

One more important issue is the sequencing of questions as this is believed to affect the respondents to give better answers and complete the whole questionnaire. We followed the so called 'funnel approach' proposed by Festinger and Katz (1996). As a result, we placed general questions in the beginning, subsequently moving onto more specific questions, and we started with easy questions moving onto the more difficult ones. Such an approach would motivate respondents to complete the survey and facilitate the smooth and progress of the respondents. Finally, the questionnaire has very clear instructions for respondents and the general appearance of the questionnaire is good enough with a cover letter explaining the purpose of the study and ensuring the confidentiality of the participation.

4.5.2 Pilot Study

It is always beneficial to conduct a pilot study prior to administering a self-completion questionnaire. Such a study does not only ensure that the survey questions operate well, but also ensures the research instrument, as a whole, functions well (Bryman and Bell, 2003). In addition, it is very important to pilot test the questionnaire to ensure that the questions are understood by the respondents and there is no ambiguity in the questions. Dillman (1978) argued that pre-testing the research instrument is carried out in order to ensure the following: the questions measure what they are intended to measure; the questions are perceived similarly by all respondents; close-ended questions are applied to all respondents; questions are answered correctly; and the questionnaire does not comprise any bias.

With the population of financial firms in Jordan numbering 104, it was decided to pilot test the main research instrument on 10% of the population. The early draft of the questionnaire was given to some of the HR directors working in the industry. The researcher also met some of these HR directors when collecting the questionnaires and subsequently discussed the general format. Generally speaking, the questionnaire was well-understood and filled in by HR directors. They positively commented on the questionnaire as it has language that was easily understood and HR terms that were frequently used in their everyday work. They commented on the comprehensive and realistic nature of the questionnaire in accordance with their HR work environment, and appreciated the clear instructions and the organised sections. Furthermore, they did not find any difficulties in terms of the wording and the measurements used in the questionnaire; however, they did provide some recommendations and changes which we have taken into consideration.

4.5.3 An Overview of the Questionnaire

The questionnaire that was finally administered after the pilot study comprises five main sections. This part provides a brief overview of questions contained in each section. A copy of the questionnaire is provided (appendix A) and can be consulted for any further detail.

Section A is concerned with the basic information related to the companies. It solicited data on firm age, firm size, main objectives and strategies of the companies, structure and operations, and employee turnover rate.

Section B covered the role of HR director. It asked about the level of their contribution to planning and implementing the business and corporate strategies in their companies. We also asked about the role of HR directors in relation to a number of issues, such as headhunting, contributions to succession planning, organising training programmes, planning career paths for organisational development, job evaluation, monitoring and assessing employee performance, ensuring compliance with equal opportunities legislation, and advising on organisational design. This section also questioned whether the role of HR directors has been changed over the last 5–10 years, and further queried the level of representation of HR directors at board meetings and the level of delegation of day-to-day HR work to line managers.

Section C covered three main HR practices, including recruitment and selection, training, and internal career opportunities. Recruitment and selection were inquired in terms of the emphasis the company places on qualifications and personal characteristics in terms of appointing someone to a middle-grade general management. The qualifications covered school and universities, professional qualifications, previous experience of a similar job, a wide range of work experience, work experience in other countries, and command of languages. As for personal characteristics, they included willingness to travel, total devotion to task, self-motivation, potential to grow with the job, independent judgment, and commitment to the company.

In specific consideration to training, a question was asked relating to the most applicable methods in the company. Methods of training covered formal instructions within the company, training provided by a third party organisation but tailored to company needs, induction into a group by socialisation and imitation, learning by doing on your own. The third practice was internal career opportunities. Respondents were asked about the main criteria of individual or group performance used in assessing cases for promotion. This question comprises the following items:

contribution to profit, value of output, quality of output, keeping within budget, efforts, and overall professionalism. These three practices covered in this section were measured on a 5-Likert scale ranging from ‘not applicable’ to ‘always applicable’.

Section D is concerned with performance appraisals, and incentives and rewards practices. Questions on performance appraisal was conceptualised as how frequently appraisals are conducted and how feedback is dispensed? In incentives and rewards, three questions were asked; the first one is related to how do the salary differentials are explained to employees? Choices provided were if they simply reflect the external market conditions; they reflect the firm’s own evaluation of the jobs people perform; they are fair in the context of the company’s system of values; management must be free to reward people in whatever way best serves the company’s interests; and personal perception takes role. The second question asked about the importance of the following rewards in terms of retaining key staff: whether basic pay was above the industry level; basic pay above the local level in the area; valuable fringe benefits; the opportunity to earn large bonuses through greater efforts; annual salary increments above the rate of inflation; and better career prospects than other firms in the same industry. The third question was related to what are most important social and psychological benefits to a manager working for your company? Choices belong to this question were: interesting and challenging work; friendly and supportive colleagues; job security; and the prestige of working for one of the top firms in the industry. All these questions and their items were measured on a five-point Likert scale ranging from ‘not important’ to ‘very important’.

Section E measured the perceived financial performance. It asked HR directors how they would rate the following performance indicators on a ten-point Likert scale ranging from ‘lowest performance’ to ‘highest performance’: HRM practices and policies; holding market share; sales revenue; and profitability (after tax). This question takes into consideration the subjective side of organisational performance.

4.6 Measurement of the Research Variables

The main variables in the present research are organisational performance as the

dependent variable and strategic human resource management as the independent variable. We consider the objective and the subjective sides of the dependent variable. Therefore, this work considers ROA, ROE, and employee turnover as indicators of organisational performance of the targeted companies. This research further measures the perceived financial performance following from previous studies on SHRM-performance link. This research also considers firm age and firm size as control variables.

4.6.1 Outcome variables

Employee Turnover: Employee turnover is an important outcome variable. The inability to retain competent and skilled employees has been identified as a barrier to organisations' success (Holt, 1993). Most studies (for example, Arthur, 1994; Huselid, 1995; Wood *et al*., 2006) conducted in relation to the HRM-performance link have taken into consideration employee turnover as a vital outcome and an important indicator of organisational performance. Following the work of Arthur (1994), Huselid (1995), Way (2002) and Wood *et al*. (2006), employee turnover rate is measured by a simple and direct question concerning the percentage of total employees that voluntarily leave the company each year.

Financial performance: Since the interest of strategic HRM is the firm level of analysis, this research incorporated two financial measures important to the financial sector as dependent variables which are ROA and ROE. Such ratios are considered as most important and common indicators of firms' performance (Theriou and Chatzoglou, 2008). ROE reveals how much profit an organisation has earned in comparison to the total amount of shareholder equity found on the balance sheet. ROA, in contrast, is a key profitability ratio and has been used as a measure of efficiency and resource exploitation in organisations (Keats, 1988; Snell and Youndt, 1995); hence, the higher the ROA, the more effective the company in terms of utilising its assets. Such ratios are not useful when comparing sectors against each other the same as they are useful when we compare them in the same sector owing to the homogeneity of the companies' businesses. HRM researchers (for example, Snell and Youndt, 1995; Delery and Doty, 1996; Vandenberg, 1999) have adopted these two measures as the

main indicators to reflect the financial performance of the companies in their works. These financial measures were obtained from ASE database. Equation 4.1 and Equation 4.2 show the formulae for these two ratios.

Equation 4.1: $$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Equation 4.2: $$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder Equity}}$$

There are two main types of HRM-performance research design: cross-sectional are those in which both predictors and outcome variables are measured on one occasion only; whilst in longitudinal studies, either or both the predictors and outcome variables are measured on at least two occasions (Wall and Wood, 2005). Both types of research design are of value. Cross-sectional research is gainful in terms of cost and time starting points for establishing that two or more variables are related, and in case of the absence of a cross-sectional relationship, this would send or indicate warning signals that more costly longitudinal work might not be justified (Wall and Wood, 2005).

HRM researchers have implemented a cross-sectional design in order to test such a relationship (for example, Arthur, 1994; MacDuffie, 1995; Delaney and Huselid, 1996; Wright *et al*. 1999; Bae and Lawler, 2000; Way, 2002; Datta *et al*., 2005). Following this work, we consider the design of the current research a cross-sectional design. Notably, the majority of the studies conducted in regard to the HRM-performance link have employed the cross-sectional design (Wright *et al*., 2005). Thus, the measures of ROA and ROE in the current work were the year-end measures for 2007.

Perceived financial performance: A large number of studies conducted in relation to the HRM-performance link (for example, Delaney and Huselid, 1996; Wright *et al*., 1999; Fey *et al*., 2000; Joseph and Dai, 2009; Katou and Budhwar, 2010; Razouk, 2011) have employed subjective measures of performance. These studies have simply

and directly asked the respondents to rate the main financial and market indicators in their companies compared to their rivals in the industry. It has been argued that subjective measures of organisational performance enable managers to factor in companies' objectives when evaluating their performance. Although such measures may introduce limitations through increased measurement errors and potential bias, the benefits nevertheless overweigh the risks (Fey *et al*., 2000). Previous research proves that subjective measures of organisational performance are positively correlated with its objective measures (Dess and Robinson, 1984; Geringer and Hebert, 1991; Powell, 1992). Following this work and the reasoning outlined above, this research measures considers financial performance through a special section detailed in the questionnaire, during which HR directors in the targeted companies were asked to rate the following in terms of their companies' performance comparing to their rivals in the industry: HRM practices and policies, holding market share, sales revenue, and the profitability (after tax). The perceived financial performance scale was developed based on previous similar works (for example, Delaney and Huselid, 1996; Claycomb *et al*., 1999; Wright *et al*., 1999; Fey *et al*., 2000; Green *et al*., 2006; Joseph and Dai, 2009; Razouk, 2011) where researchers have subjectively measured financial performance.

4.6.2 Independent Variables

The questionnaire measures the roles of HR director, HR practices (recruitment and selection, formal training system, internal career opportunities, formal performance appraisals, and incentives and rewards), strategic HR involvement and HR devolvement. Regarding HR practices, as stated previously, any mixture of HR practices essentially encompasses an element of selectivity (Guest, 1997; Brewster *et al*., 2008). In fact, the broad range of measures of HR practices is certainly extensive. However, some of the measures, such as training, are somewhat ambiguous; firms with very high staff turnover rates or operating in contexts where academic or technical training is poor may have to spend a great deal on basic induction or skills training, but whilst at the same time being otherwise poor at managing people. Simply asking whether training or rewards and incentives are present or not, is a poor indicator of intent. One would need to know, for example, more on its duration and nature, to obtain a better idea of the underlying approach to HRM. HR practices measures have

to be more detailed in any future work, rather than asking a single question to measure each practice as it is the case of large number of previous HRM-performance studies.

We developed HR practices measures (see section 4.5.3) based on existing SHRM literature. Our focus on HR practices has been developed based on the work of Delery and Doty (1996) and Pfeffer (1998), with the former having proposed seven different HR practices, as mentioned previously, referred to as strategic human resource practices. In turn, their work is based on the theoretical and empirical work of Miles and Snow (1984), Osterman (1987), Kerr and Slocum (1987), and Sonnenfeld and Peiperl (1988). Theriou and Chatzoglou (2008) point out that such practices proposed by Delery and Doty (1996) and Pfeffer (1998) are expected to generate inimitable human resources and lead organisations to gain competitive advantage. Furthermore, the majority of these HR practices have been included by the work of Pfeffer, and Delery and Doty, and have the greatest support across a diverse literature (Delery and Doty, 1996). In addition, four of the HR practices chosen for this work reflect the main objectives of strategic HRM programmes in organisations and they are the most used in HRM-performance research (Batt, 2002; Paauwe, 2009); namely, recruitment and selection, training, appraisal system, incentives and rewards. Paauwe (2009) claims that there is a convergent trend in HRM theoretical and empirical work toward approaching HRM as a combination of these four practices as they best reflect the strategic shift of the felid.

In addition, the literature shows that several researchers have examined the impact of the complementarities or synergies of the whole HR practices on organisational performance. The rationale for researchers behind emphasising the complementarily thesis is that HR complementarities or bundles of practices is the best way for the level of analysis when researchers want to investigate the impact of these practices on firm-level performance (Delaney and Huselid, 1996; Chadwich, 2010). Following the work of those scholars who have examined the complementarities thesis in SHRM (for example, Huselid, 1995; MucDuffie, 1995; Delaney and Huselid, 1996; Macky and Boxall, 2007; Wood and Menezes, 2008), this study examines the potential of complementarities in terms of interactive relationship amongst HR practices (Venkatraman, 1989).

Strategic HR involvement and HR devolvement are more concerned with the role of HR directors in the companies. As stated previously, strategically involving HR directors in the overall strategic management process and devolving day-to-day HR practices to line managers are considered the main aspects of the strategic HRM. We developed these measures based on existing SHRM literature concerning the role of HR directors (Budhwar and Sparrow, 1997; Budhwar, 2000; Chang and Huang, 2005; Andersen *et al*., 2007). These researchers have demonstrated significant interests in their work concerning the issues of strategic HR involvement and HR devolvement. Since the previous studies have measured the impact of these two variables on the perceptual measures of organisational performance, the current research measures the impact of these two variables on objective financial performance measures.

4.6.3 Control Variables

It is essential to include control variables in the research owing to their possible association with dependent variables. Common control variables that can be used are firm size, firm age, R&D intensity, and the country of ownership. The literature review shows that firm size and age are commonly used control variables in the studies on the HRM-performance link as these can cause significant variations in the impact of HRM practices on organisational performance. Firm size, in particular, has been found to be an important control variable (see for example, Boselie and Wiele, 2002; Collins and Clark, 2003; Katou and Budhwar, 2010; Moideenkutty, 2011). In this work, we use firm size and firm age as control variables, measured respectively in natural logs (see also Kimberly, 1976) by the number of employees in each company, and the number of years the company has been in operation. We collected the firm size and firm age data from the questionnaire by asking the respondents about the total employees of the company, and the year in which the company was established. Moreover, firm size and firm age were obtained from the ASE database just to make sure of the accuracy of the numbers given in the questionnaire.

4.7 Data Analysis Strategy

Due to the focus of this research and based on the previous work that has been conducted in consideration to the HRM-performance link, descriptive and inferential statistical methods are employed to test the hypotheses stated in the previous chapter. We mainly use Statistical Package for the Social Sciences (SPSS) to analyse the data. The adequacy and effectiveness of analysing the data through the use of SPSS has been acknowledged by many scholars (Tabachnick and Fidell, 2007; Field, 2009). Structural Equation Modelling (SEM) is also used in order to conduct confirmatory factor analysis as SPSS does not have this feature. This section briefly explains the statistical methods used in this research and the justifications behind using these methods.

4.7.1 Preliminary Data Analysis

The research data analysis strategy starts by providing an overview of the descriptive findings of the data. It first presents the means, standard deviations and variances to understand the structure of the data. We then assess the effects of missing data, identify outliers, and examine the assumptions underlying the multivariate techniques. Such assumptions are normality, linearity, multicollinearty and homoscedasticity. The main aim of these tests is to reveal and mend what could not be clearly seen because the hidden effects are easily overlooked. In so doing, we used the following tests; skewness-kurtosis, bivariate correlation plots, a scatterplots matrix, box and whisker, normal probability plots and de-trended normal probability plots.

4.7.2 Factor Analysis

Factor analysis is the first multivariate technique utilised in this research. Factor analysis has two strands: exploratory factor analysis and confirmatory factor analysis; the former is associated with identifying, summarising, and grouping together the data that are correlated and it is related to theory development whilst confirmatory factor analysis, on the other hand, is associated with theory-testing and is a more sophisticated method used in advanced levels of research, and is also often conducted through structural equation modelling (Tabachnick and Fidell, 2007). The current research employs both types of factor analysis.

4.7.2.1 Exploratory Factor Analysis:

Exploratory factor analysis has two main approaches: common factor analysis and principal component factor analysis. These two approaches differ in terms of the communality (the amount or percentage of common variance present or explained in a variable) estimates used (Field, 2009). The principal component factor analysis considers the total variance, whilst extracts factors include small proportions of unique variance and sometimes error variance (Hair *et al*., 2010). The solutions produced from these two methods are very slightly different and, in some cases, the different solutions are unlikely and thus the two techniques may yield similar results (Guadagnoli and Velicer, 1988; Stevens, 1992).

This research utilises principal component factor analysis. The justifications behind the selection of this specific method are that the principal component factor analysis is the most widely used technique for factor analysing the data, and is a psychometrically sound procedure and mathematically and conceptually less complex than common factor analysis (Field, 2009). In addition, the Varimax orthogonal rotation is employed to derive factor solutions, as this makes the interpretation much easier and simple, gives a clearer separation of the factors by maximising the dispersion of loadings within factors, and has also been proven to be a very successful and effective analytic method in terms of obtaining an orthogonal rotation of factors (Hair *et al*., 2010).

4.7.2.2 Confirmatory Factor Analysis:

Confirmatory factor analysis is associated with theory-testing and is a more sophisticated method adopted in advanced levels of research, commonly conducted through structural equations modelling (Tabachnick and Fidell, 2007). This research conducts confirmatory factor analysis using structural equation modelling (SEM), the justification behind this being the capacity to test the goodness of the data and variables' unidimensionality in terms of construct reliability and validity. Accordingly, the convergent validity is tested by examining the factor loadings of each constructs, average variance extracted (AVE), and constructs' reliabilities. Discriminant validity, on the other hand, is tested by examining the constructs'

correlations in comparison with the square root of the AVE values for these constructs (Fornell and Larker, 1981).

4.7.3 Multiple Regression Analysis

Regression analysis is a widely used technique for analysing data. It is a powerful tool for conducting predictions and assessing the relationship between one dependent variable and several independent variables (Brayman and Cramer, 2005). The two major types of regressions analysis are simple regression for testing a relationship between a single predictor variable and one outcome variable, and the multiple regressions for testing a set of predictors with an outcome variable, which will be used in this thesis. In order to test the relationships of the current research hypotheses, we conduct hierarchical or sequential multiple regression through multiple steps. Hierarchical regression analysis is commonly conducted in HRM-performance research (Bae and Lawler, 2000).

4.7.4 Testing the Mediation effects of Employee Turnover

This research employs the three-step method proposed by Judd and Kenny (1981) and Baron and Kenny (1986), as well as Sobel's test to examine the mediation effects of employee turnover in the relationship between HRM and organisational performance. Although the criteria stated by the three-step method can be used to informally judge whether or not there is a mediation effect between independent and dependent variables (Preacher and Hayes, 2004), such a method is still frequently used in HRM-performance research to investigate the mediation effects (for example, Huselid, 1995; Collins and Clark, 2003). Preacher and Hayes (2004) argue that the conditions of the statistical steps proposed by Baron and Kenny's three-step method constrain the process of the mediation analysis. Nevertheless, several researchers argue that such constraints can be overcome without hampering the overall validity of the mediation analysis (Atuahene-Gima and De Luca, 2007). For instance, Sobel (1982) and MacKinnon and Dwyer (1993) propose statistical based methods through which mediation may be formally assessed. Such a statistical method proposed by Sobel helps researchers to investigate the indirect effects of independent variables—regardless of the significance of their total effects on the outcome (Atuahene-Gima

and De Luca, 2007). Moreover, such a test would help the researcher to determine the significance of the effect in terms of whether it is a partial effect, unlike the three-step method. As a result, the current research employs both methods to examine the mediation effects or the indirect relationship between HRM and organisational performance. More detail about both methods are provided in chapter 5.

4.7.5 Testing the Complementarities of HR Practices

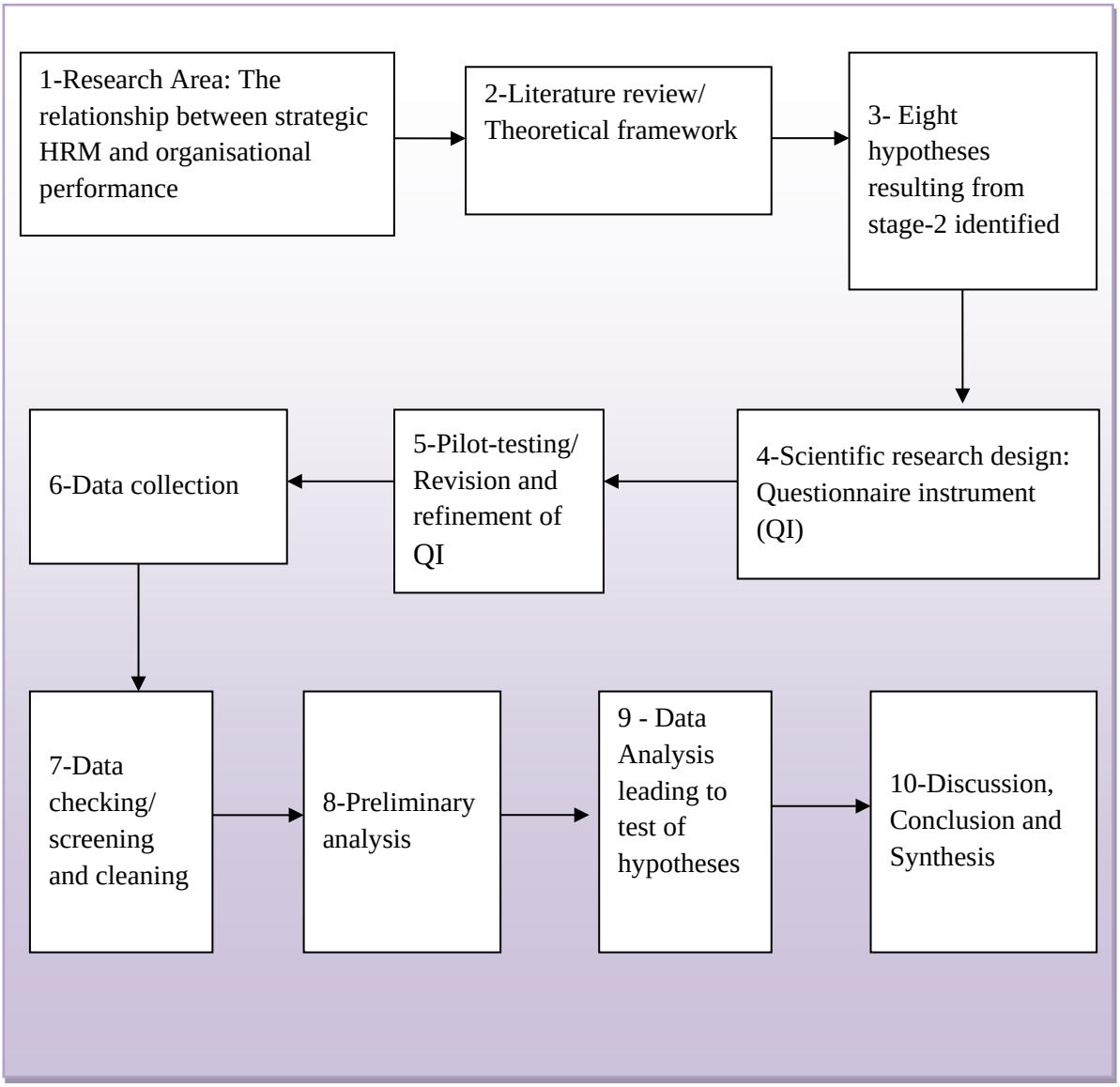
Bundling or complementary thesis is one of the core theoretical concerns in SHRM; nonetheless, the measurement remains a matter of debate amongst researchers (Guest, 2011). It is commonly assumed that the impact of HR complementarities on organisational outcomes must be more than simply the additive sum of each practice's independent effects (Macky and Boxall, 2007). Rather, the notion of complementariness of HR practices necessitates that such practices have a synergistic or mutually reinforcing impact on performance (Huselid, 1995; MacDuffie, 1995; Ichniowski *et al*., 1997; Wood, 1999; Godard, 2004; Macky and Boxall, 2007). As a result, researchers who wish to examine this argument should take into consideration the interaction effects amongst HR practices as the best indicator of HR-bundling; in other words, researchers have to examine the interaction effects or the internal fit amongst the practices in order to prove the impact of the complementary thesis (Huselid, 1995).

Our work examines the potential of complementarities in terms of interactive relationship amongst HR practices (Venkatraman, 1989). As a result, we first examine the two-way interaction terms amongst all the HR practices to explore whether or not there is any synergistic effects on financial performance; second, as recommended by Macky and Boxall (2007) and Guest *et al*. (2004), this research conducts one more test so as to explore whether or not the whole interaction effects amongst HR practices explain a greater percentage of the variance above the percentage that the individual HR practices explain.

4.8 Summary of the Applied Research Process

The research methodology and design followed in this thesis is presented schematically in Figure 4.2.

Figure 4.2: The research process



Source: Adapted from Mohamed *et al*. (2012).

4.9 Ethical Considerations

In accordance with the scientific research principles, it is essential and important to take into consideration the ethical aspects of the present research. Such issues are considered core issues in the scientific research process. Undertaking to maintain complete confidentiality and anonymity would motivate and increase the number of participation in any study. As we employ a survey research method, where the main

research instrument is the questionnaire, this research follows Brunel Business School's ethics form. The participants were informed about the nature and purpose of this research, with all subjects guaranteed about the anonymity and overall confidentiality of the data.

4.10 Summary

This chapter has explained the research methodology and the research design adopted to empirically test the theoretical framework presented in Chapter three. We also discussed the methods used for data collection and the population and sampling procedures. The current research employs a combination of primary and secondary data to achieve the objectives of the study. For primary data, the survey method is

employed. The questionnaire included sections on the role of HR director, HR practices, strategic HR involvement, HR devolvement, employee turnover, and perceived organisational performance. The financial secondary data for aligning companies who responded to the questionnaire were gathered from the ASE database. The target population of this research is the financial sector of Jordan. The unit of analysis is the organisation, with the targeted respondents HR directors. The researcher decided to approach all the firms in the population for the purpose of data collection.

We clarified the survey development process and design, pilot study, and survey administration procedures. We also explained the measurement of the research variables and accordingly explained the software packages and data analysis strategy applied in this work. Descriptive analysis and proportion tests, exploratory and confirmatory factor analysis, and multiple regression analysis are the main statistical techniques employed in this research. We finally provided a summary schematically outlining the current research process and stated the main ethical considerations related to this research.

CHAPTER FIVE: DATA ANALYSIS 'DATA PREPARATION'

5.1 Introduction

This chapter presents the process of screening and cleaning up the data as an important step prior to the initiation of the hypotheses-testing. It also provides an account of the descriptive findings of the data. It shows the variables' means, standard deviations, and variances which help us to understand the structure of the data. We assess the effects of missing data, identify outliers and examine the assumptions underlying the multivariate techniques, such as normality, linearity, multicollinearty and homoscedasticity. The aim of such tests is to reveal and mend what could not be clearly seen since the hidden effects can easily be overlooked. In addition, we conduct two types of factor analysis: exploratory and confirmatory factor analysis; exploratory factor analysis is employed to define and understand the underlying structure amongst the research variables, whilst confirmatory factor analysis is used to test the goodness of the data and variables' unidimensionality in terms of constructs' reliability and validity.

5.2 Data Screening

Before starting the data analysis process, data screening should take a place as an initial step in any field of analysis where the researcher cleans up the data, assesses the effects of missing data, identifies outliers, and examines the assumptions underlying most multivariate techniques (Hair *et al*., 2010). As stated previously, the main objective of these tests is to reveal and discover what could not be clearly seen as the hidden effects are easily ignored.

5.2.1 Data Coding and Editing

One important issue prior to the analysis stage is to ensure data file accuracy. In the coding process of the present work, numerical codes were assigned to all questions. Moreover, in order to make sure that the coding process was accurate, checks and cross-checks were made on the data set. As recommended by Tabachnick and Fidell

(2007), we carried out data editing by proofreading the original data to determine that the items were entered correctly, and also examined descriptive statistics and graphic representations of the variables.

5.2.2 Treatment of Missing Data

Missing data refers to any data collection problems, data entry errors, or respondents' refusal or failure to answer one or more questions in the survey. Tabachnick and Fidell (2007) illustrate two ways of evaluating missing data when one of the above cases occurs: the first way is related to the pattern of missing data in which the researcher estimates the randomness of missing data, and the second one is associated with the amount of missing data. As a result, missing values sprinkled randomly throughout a data matrix pose less complexity, but indicates that there is no bias. In contrast, when missing values are non-randomly distributed amongst the questionnaire, the generalisability of the study could be affected. Tabachnick and Fidell (2007) accentuate that the pattern of missing values is more important than the amount of missing data in order to get truthful findings.

Regarding the volume of missing values, we found less than 5% missing values for each construct in the questionnaire, which is considered to be an acceptable percentage (Churchill, 1979). When the percentage of the missing data is minor, i.e. less than 5%, it is very common to drop cases with missing data from the analysis (Kalton and Kasprzyk, 1982); however, we have a small set of data in the research, which therefore makes the case for dropping missing data impractical. Hence, the randomness test of missing data was the next step to make sure that there is no systematic error (Hair *et al*., 2010).

The test of Missing Value Analysis (MVA) showed that the pattern of missing data occurred based on randomness, which means that missing data could be considered missing completely at random (MCAR), $p > .05$, $p = .609$. As a result, we may employ any of the remedies for missing data because there will be no bias in such a pattern of missing data or any hidden effects on the results (Hair *et al*., 2010). The missing values were replaced with the variable means as one of the best methods to replace missing

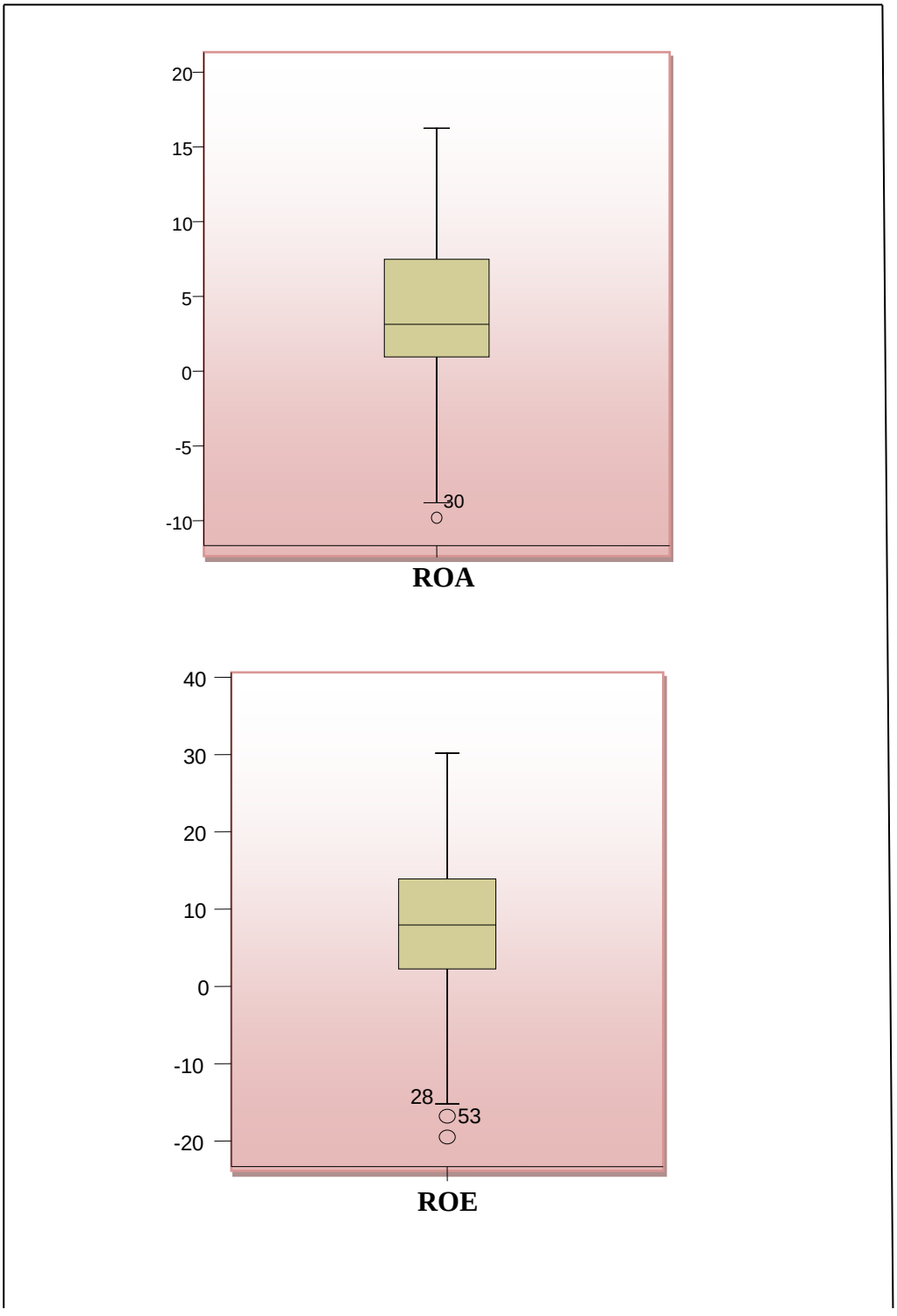
data as long as it is based on valid responses (Tabachnick and Fidell, 2007; Hair *et al*., 2010).

5.2.3 Outliers

An outlier is a score with such an extreme value that is very different from the rest of the data (Field, 2009). Researchers must be aware of such an extreme value as it might bias the model they fit to the data and thus distorts resultant statistics. Outliers can be detected through the use of histograms, box plots, normal probability plots, or de-trended normal probability plots. We detected outliers for all the research variables using box and whisker, normality probability plots, and de-trended normal probability plots.

The outlier analysis revealed no extreme cases that could be considered as an outlier, with the exception of ROA and ROE. Very few cases were found to be outliers in these two dependent variables. As a result, it was decided that such cases would be left and any data would not be transformed since few cases are recognised as acceptable outliers as they do not have any effect on the findings of the study (Tabachnick and Fidell, 2007). Only one outlier was found in ROA and two outliers were found in ROE, as can be seen in Figure 5.1; this is considered acceptable. Furthermore, to make sure that these two variables and the rest of variables are normally distributed, the next section examines the normality assumption for all the research constructs.

Figure 5.1: ROA and ROE outliers



Source: Author's analysis of data

5.3 Testing for Normality, Linearity, Multicollinearty and Homoscedasticity

5.3.1 Normality

Normality is the primary assumption in multivariate analysis that indicates the shape of the data distribution and its correspondence to the normal distribution. Large variations from the normal distributions distort other statistical tests and make them invalid (Hair *et al*., 2010). The normality assumption can be tested at univariate level (distribution of scores at an item-level) and at multivariate level (distribution of scores within combination of two or more items). Importantly, if the variables have met the multivariate normality assumption, then the assumption of the univariate normality would then be met as well, whilst the reverse is not necessarily true (Hair, *et al*, 2010). In other words, the existence of normality at the univariate level does not guarantee the assumption of multivariate normality.

Normality is tested in terms of either graphical or statistical ways, and has two main components: skewness and kurtosis. A Jarque-Bera (skewness-kurtosis) test was conducted to ensure that all the research constructs are within the acceptable limit of the skewness and kurtosis ranges. Skewness is associated with the symmetry of the distribution where the distribution is shifted to the left or to the right (Andersen *et al*., 2007). For instance, positively skewed data indicates that the distribution is shifted to the left or is unbalanced to the left and tails off to the right, whereas a negative one reflects a shift to the right and tails off to the left. Kurtosis, in contrast, reflects the 'peakedness' or 'flatness' of the distribution in comparison with the normal distribution (Hair *et al*., 2010). For instance, a positive kurtosis reflects a peaked distribution, whereas a negative kurtosis indicates a flatter distribution. Scholars have identified the critical values of skewness and kurtosis (for example, Tabachnick and Fidell, 2007; Hair *et al*., 2010) within the range of ±2.58 at the 0.01 significant level.

As a result, due to the extreme skewness of the data and the severe deviation from normality, firm size and firm age were transformed by taking the logarithms of these variables. The logarithm of a number to a specified base is the power to which the base should be raised to produce a particular result. As a result of data transformation, the

normality test for firm size and firm age revealed no serious departure from normality. With regard to the rest of the variables, the results of normality test revealed that all the research constructs' skewness and kurtosis values are found to be between the acceptable limit of ranges, as can be clearly seen in Table 5.1. In other words, the results indicate that the data is normally distributed. Furthermore, a normal probability plots test has been carried out separately for each variable, with the results similarly indicating that there was no serious deviation from normality.

Table 5.1: The normality of the data based on skewness and kurtosis values

Constructs	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Std. Error			Statistic	Std. Error	Statistic	Std. Error
Recruitment and Selection	41.14	.954	9.49	90.18	-.100	.243	-.89	.481
Training	13.25	.334	3.32	11.02	-.045	.243	-1.41	.481
Internal Career Opportunity	23.19	.445	4.43	19.62	-.271	.243	-.75	.481
Performance Appraisals	4.76	.197	1.96	3.87	.242	.243	-.904	.481
Incentives and Rewards	51.16	.757	7.53	56.75	-1.24	.243	-.26	.481
Strategic HR Involvement	3.41	.123	1.22	1.49	-.123	.243	-1.05	.481
HR Devolvement	3.63	.123	1.23	1.50	-.571	.243	-.70	.481
Turnover Rate	3.48	.171	1.69	2.88	.250	.243	-1.20	.481
Return On Assets	4.02	.572	5.69	32.42	-.042	.243	.09	..481
Return On Equity	7.54	.933	9.29	86.33	-.408	.243	.90	.481
Perceived Financial Performance	17.92	.875	8.70	75.76	.087	.243	-1.23	.481
Log Firm Size	3.39	.195	1.94	3.78	097	.243	-.383	.481
Log Firm Age	2.55	.095	.952	.907	-.355	.243	-1.08	.481

Source: Author's analysis of data

5.3.2 Homoscedasticity

The assumption of homoscedasticity refers to dependence relationships between variables, meaning that the dependent variable(s) shows equal (homo) levels of variance (scadasticity) across the range of independent variable(s), which could be easily and best tested by graphical methods such as scatterplots (Hair *et al*., 2010). If the variances are not equal across values of the independent variables, the relationship

supposed to be heteroscedastic relationship. In fact, the assumptions of homoscedasticity and normality are related to each other because, when the assumption of normality is met, the relationships between variables is said to be homoscedastic (Tabachnick and Fidell, 2007). As a result, the relationships between the variables in the current research are supposed to be homoscedastic as all the variables have met the assumption of normality. Nonetheless, in order to ensure that the relationships between variables have met the assumption of homoscedasticity, bivariate scatterplots were conducted between variables and the results revealed homoscedastic relationships.

5.3.3 Linearity and Multicolinearity

The linearity of the relationships between variables is another important statistical assumption. Bivariate correlation was conducted to determine the linearity and multicolinearity of HRM practices, strategic HR involvement and HR devolvement. Tabachnick and Fidell (2007) stated that the statistical problems created by multicollinearity occur at high level of correlations (.90 and higher). It can be seen from the results of Pearson's correlation in Table 5.2 and the scatterplots matrix in Figure 5.2 that the independent variables are not highly correlated with each other; correlation coefficients are all less than .90. A certain amount of correlation between these variables is expected and, in fact, is considered to be a good sign.

Table 5.2: Correlations matrix of variables

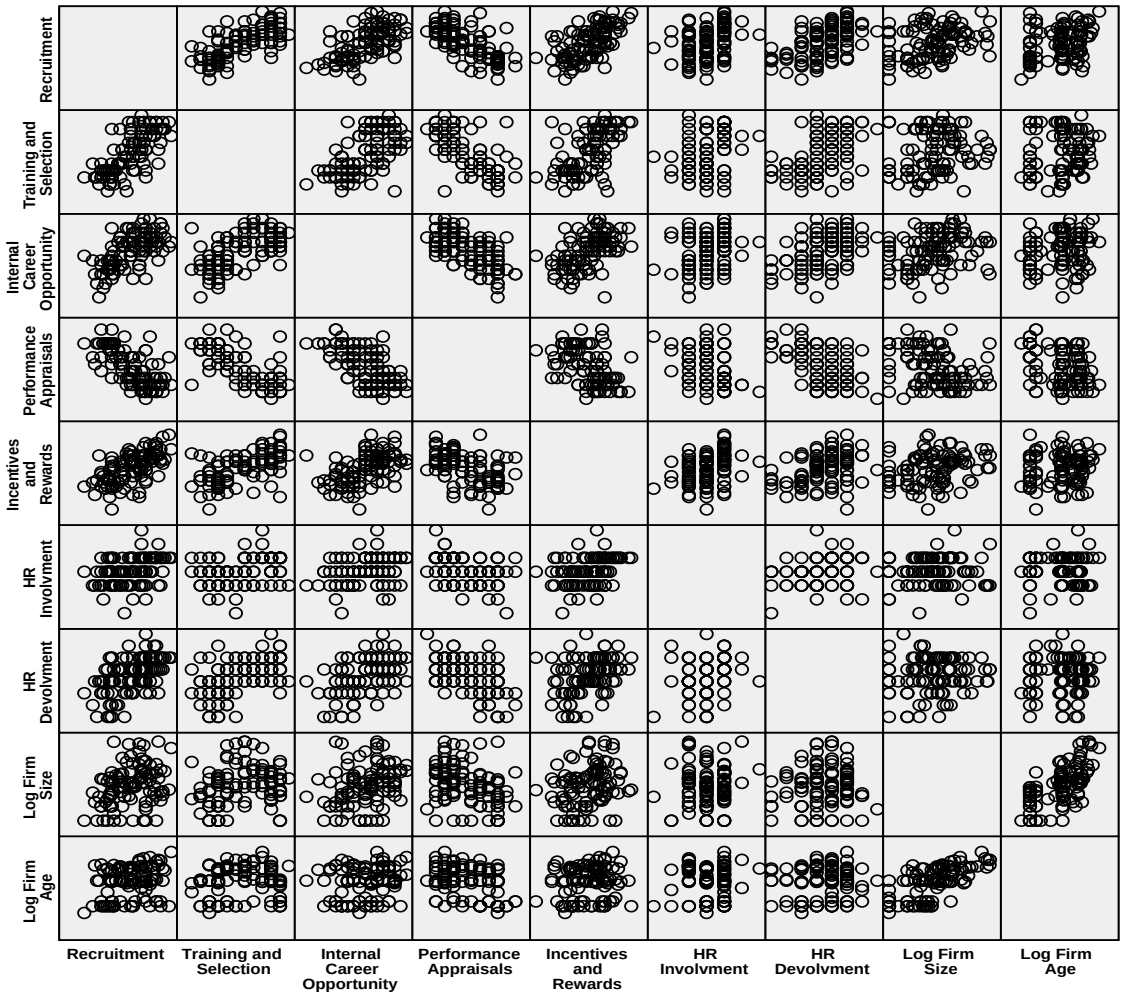
Constructs	Recruitment and Selection	Training	Internal career opportunity	Performance appraisal	Incentives and rewards	HR involvement	HR devolvement	Log firm size	Log firm age
Recruitment and selection	1								
Training	.739**	1							
Internal career opportunity	.671**	.702**	1						
Performance appraisals	-.478**	-.473**	-.512**	1					
Incentives and rewards	.658**	.616**	.640**	-.345**	1				
HR involvement	.745**	.769**	.759**	-.569**	.647**	1			
HR devolvement	.569**	.618**	.575**	-.408**	.424**	.684**	1		
Log firm size	.323**	.221*	.272**	-.171	.306**	.233*	.095	1	
Log firm age	.260**	.165	.173**	-.364**	.156	.181	.087	.667**	1

Source: Author's analysis of data

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Figure 5.2: Scatter plots matrix of variables



Source: Author's analysis of data

5.4 Factor Analysis

Having screened and tested the assumptions underlying the multivariate techniques, more meaningful, truthful and significant results can be garnered when running these techniques for the analysis. For instance, variables with singularity (variables are completely correlated) or extreme multicollinearity should be deleted before running the factor analysis as it becomes impossible to identify the unique contribution to a factor of the variables that are highly correlated (Field, 2009). Nonetheless, some degree of multicollinearity is required as the main purpose for such an analysis is to identify interrelated sets of variables. Factor analysis is the first multivariate technique

used in this research. Factor analysis poses the question concerning how a large set of variables can be substituted by a smaller one that best reflects the large set (Wood *et al*, 2009). Factor analysis has two major types: exploratory factor analysis and confirmatory factor analysis. The former is associated with identifying, summarising, and grouping together the data which are correlated, and is more related to theory development. Confirmatory factor analysis, in contrast, is associated with theory-testing and is a more sophisticated method used in advanced levels of research, and it also commonly conducted through structural equation modelling (Tabachnick and Fidell, 2007).

Exploratory factor analysis is an interdependence method with the aim of defining and understanding the underlying structure amongst the variables in the analysis. This technique helps researchers to identify sets of variables that are highly interrelated with each other (factors) and totally independent of other sets of variables. We conducted exploratory factor analysis for HRM practices: recruitment and selection, training, internal career opportunities, performance appraisals, incentives and rewards; and perceived financial performance regardless of the fact that these variables have been conceptually operationalised and constructed based on the existing literature. This technique is used in this work to ensure that all the variables are well-defined conceptually and well-constructed, and to further discover the interrelationships between variables. In addition, this technique is used to inform the reduction of items to a more manageable number (Gerbing and Anderson, 1988). Factor analysis is not conducted on ROA and ROE since they are based on financial data not survey data. Likewise, this technique is not applied on turnover rate since it was measured by a single-item in the questionnaire.

5.4.1 Exploratory Factor Analysis

Exploratory factor analysis has two main approaches: common factor analysis and principal component factor analysis. These two approaches differ in terms of the communality (the amount or percentage of common variance present or explained in a variable) estimates that are used (Field, 2009). Common factor analysis takes into account only shared or common variance where both the specific (unique) and error

variance are not of concern in terms of identifying the structure of variables. Principal component factor analysis, in contrast, considers the total variance and extracts factors, including small proportions of unique variance and sometimes error variance (Hair *et al*., 2010). The solutions produced from these two methods are very slightly different, and in some cases, the different solutions are unlikely and the two techniques may yield similar results (Guadagnoli and Velicer, 1988; Stevens, 1992). Importantly, the principal component factor analysis was employed with the reasoning that principal component factor analysis is the most widely used technique for factor analysing the data; it is a psychometrically sound procedure and is mathematically and conceptually less complex than common factor analysis (Field, 2009).

5.4.2 Principal Component Factor Analysis

As stated earlier, principal component analysis considers the total variance and extracts factors that include small proportions of unique variance and sometimes error variance. As a part of this technique, Varimax orthogonal rotation was employed to derive factor solutions because it makes the interpretation much easier and simple; it gives a clearer separation of the factors by maximising the dispersion of loadings within factors; and finally, the Varimax method proved that its very successful and effective analytic method to obtain an orthogonal rotation of factors (Wood *et al*., 2009; Hair *et al*., 2010). Since we have a small sample size in this research, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was conducted to make sure that factor analysis is appropriate and reliable in this case.

5.4.2.1 Principal Component Factor Analysis of Recruitment and Selection:

Principal component analysis of recruitment and selection as one of the HRM practices is recorded in Table 5.3. First of all, we will discuss the value of Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The KMO statistics varies between 0 and 1. Kaiser (1974) states that KMO's values greater than .5 should be accepted but as barely (if below .5, we cannot proceed factor analysis). Moreover, values between .5 and .7 are average, values between .7 and .8 are good, values between .8 and .9 are great, and finally values exceeding .9 are outstanding.

In the case of recruitment and selection, the value of KMO is .88, which is considered bordering on outstanding. The KMO value indicates that we can be confident that factor analysis is appropriate for these data. A value close to 1 means that patterns of correlations are relatively solid and that the factor analysis should reveal distinct and reliable factors (Field, 2009).

In consideration to the statistical significance of principal component factor analysis, we can assess the loadings of the factor as the criteria to determine the level of significance (Tabachnick and Fidell, 2007; Hair *et al*., 2010). As a rule of thumb, loadings below .32 should not be interpreted, and the more the value of the loadings, the more the variable is a reliable measure of the factor. Comrey and Lee (1992) state that loadings of .71 or above are considered excellent, .63 very good, .55 good, .45 fair and loadings of .32 are considered poor. In fact, the issue of retaining or deleting variables holding fair or poor values depends on the researcher preference. In addition, the sample size could be a good indicator to help researchers in deciding for each factor loading value to be considered significant. Hair *et al*. (2010) determine the significance level in comparison with sample size, and suggest that, in a sample of 350 respondents, factor loadings of .30 and more are considered significant, whilst in a sample of 100 respondents, factor loadings of .55 and above are considered significant. Furthermore, in a sample of 50, a factor loading of .75 is a must for significant.

The outcome of the principal component factor analysis, with an eigenvalue greater than 1, has generated only one factor, explaining 56 % of the total variance. In this case, with only one factor extracted, no rotation of the data matrix is likely. Furthermore, all the factor loadings are significant, even if we compare them with the research's small sample size. The solution can be characterised by strong individual loadings ranging from 0.60 to 0.85, indicating a vigorous and wide-ranging structure. The loadings of twelve measurements onto a factor improve the understanding of recruitment and selection as one of the main HR practices.

Table 5.3: Principal component factor analysis of recruitment and selection variable

	Factor	

Recruitment and selection	Loadings	Communalities
Qualifications (command of languages)	**.853**	.728
Personal characteristics (potential to grow with the job)	**.841**	.708
Personal characteristics (commitment to the company)	**.834**	.696
Personal characteristics (self-motivation)	**.826**	.683
Qualifications (professional qualification other than schools and universities)	**.796**	.633
Qualifications (previous experience of a similar job)	**.789**	.623
Qualifications (wide range of work experience)	**.699**	.488
Qualifications (schools and universities)	**.693**	.480
Personal characteristics (independent judgment)	**.689**	.475
Personal characteristics (total devotion to task)	**.684**	.467
Qualifications (work experience in other countries)	**.629**	.396
Personal characteristics (willingness to travel)	**.602**	.362
Eigenvalue	6.74	
% Variance explained	56.15	
KMO	.885	

Source: Author's analysis of data
Extraction method: principal component analysis
(1 component extracted)

5.4.2.2 Principal Component Factor Analysis of Training:

Principal component analysis of training is shown in Table 5.4. The value of KMO is .57, thus indicating a satisfactory factor analysis for us to proceed. With regard to statistical significance, the outcome of principal component factor analysis with an eigenvalue of greater than 1 has generated only one factor, which explains 46.53% of the total variance. Furthermore, for enhancing the factor solution of the analysis, one item was deleted from the analysis as it lacked variations and caused interpretability problems at the conceptual level. This item was: learning by doing on your own. The deleted item has a factor loading of .51 with a communality of .27, which is considered below the significance level in comparison with our sample size. The rest of the items can be characterised by strong individual loadings ranging from 0.56 to 0.84 where they are demonstrating a considerable influence of the factor to explain training as a dominant parameter in HRM practices.

Table 5.4: Principal component factor analysis of training variable

Training	Factor Loadings	Communalities
Training methods (provided by a third party organisation but tailored to company needs)	**.838**	.703
Training methods (induction into a group by socialisation and imitation)	**.759**	.577
Training methods (formal instructions within the company)	**.559**	.313
Training methods (learning by doing on your own)	.518	.269
Eigenvalue	1.86	
% Variance explained	46.53	
KMO	.57	

Source: Author's analysis of data
Extraction method: principal component analysis
(1 component extracted)

5.4.2.3 Principal Component Factor Analysis of Internal Career Opportunities:

The outcome of the principal component analysis of internal career opportunities is recorded in Table 5.5. The value of KMO is .81, which is considered very good. The result of the principal component factor analysis with an eigenvalue of greater than 1 has generated only one factor, explaining 56.02% of the total variance. Only one item was deleted as a result of this analysis as it was below the significance level in comparison with the sample size. This item was: contribution to profit with a factor loading of .48 and a communality of .23. The remaining items are characterised by strong individual loadings ranging from 0.72 to 0.85, showing a very clear understanding of the construct.

Table 5.5: Principal component factor analysis of internal career opportunities variable

Internal career opportunities (ICO)	Factor Loadings	Communalities
Performance criteria for ICO (quality of output)	**.854**	0.730
Performance criteria for ICO (value of output-independent of profit margin)	**.831**	0.690
Performance criteria for ICO (keeping within budget)	**.776**	0.618
Performance criteria for ICO (effort – independent of final results)	**.757**	0.573
Performance criteria for ICO (overall professionalism)	**.718**	0.515
Performance criteria for ICO (contribution to profit)	.484	0.235
Eigenvalue	3.36	
% Variance explained	56.02	
KMO	.813	

Source: Author's analysis of data
Extraction method: principal component analysis
(1 component extracted)

5.4.2.4 Principal Component Factor Analysis of Performance Appraisals:

Principal component analysis of performance appraisals is shown in Table 5.6. The value of KMO is .51, which is considered to be the lowest acceptable limit for conducting factor analysis. The result of principal component factor analysis with eigenvalue greater than 1 has generated only one factor which explained 48.67% of the total variance. The items are characterised by very strong individual loadings ranging from .826 to 0.828, thereby demonstrating evidence of a robust structure of the variable.

Table 5.6: Principal component factor analysis of performance appraisals variable

Performance appraisals	Factor Loadings	Communalities
Feedback process	**.828**	.686
Appraisals time	**.826**	.682
Eigenvalue	1.46	
% Variance explained	48.67	
KMO	.516	

Source: Author's analysis of data
Extraction method: principal component analysis
(1 component extracted)

5.4.2.5 Principal Component Factor Analysis of Incentives and Rewards:

The results of the principal component analysis of incentives and rewards are slightly different from other HRM practices, as can be seen in Table 5.7. The value of KMO is .83, which is considered meritorious (Kaiser, 1974). The KMO value indicates that we should be confident that factor analysis is appropriate for the data. In other words, factor analysis should reveal excellent and highly reliable factors. The outcome of principal component factor analysis with an eigenvalue of greater than 1 has extracted two factors, thus explaining 41.65% of the total variance. Three items were deleted from the analysis as they lacked variations and caused interpretability problems at the conceptual level. These items were: they reflect the external market conditions with a factor loading of 0.54 and a communality of .301; personal perception takes role with a factor loading of .51 and a communality of .29, and basic pay above the local level in the area with a factor loading of .25 and a communality of .19. Importantly, all of the deleted items are recognised as being below the significance level in comparison with sample size.

In specific consideration to the identification and labelling of the extracted factors, Hair *et al*. (2010) claim that factors showing higher loadings should be viewed as more important and should therefore have greater influence on the name or the label representing the factor. As can be clearly seen from Table 5.7, the first factor is more associated with extrinsic incentives and rewards (financial and nonfinancial extrinsic incentives and rewards), such as pay above the industry level, valuable fringe benefits, job security, and rewards employees whatever way best serves the company's

interests. The second factor, in contrast, is more keenly associated with intrinsic incentives and rewards, such as interesting and challenging work, appreciate employees' efforts, and friendly and supportive work environment. As a result, we label the first factor as extrinsic incentives and rewards and the second factor as intrinsic incentives and rewards. The structure of incentives and rewards is very consistent with the structure of DeCenzo and Robbins (2005), who propose a theoretical structure for incentives and rewards where all the practices relate to high pay, promotions, valuable fringe benefits, and work prestige are classified under the term extrinsic incentives and rewards. In contrast, all the practices related to social activities, interesting and challenging work, supportive work environment, freedom and more responsibility are described by intrinsic incentives and rewards. These results provide a robust and comprehensive structure of incentives and rewards. The loadings of rewards and incentives measurements onto two factors improve the understanding of the structure of this variable and they are consistent with previous work.

Table 5.7: Principal component factor analysis of incentives and rewards variable

Incentive and Rewards	**Factor Loadings**		**Communalities**
Factor (1)	*Extrinsic incentives and rewards*		
Rewards (basic pay above the industry level)	**.880**		.754
Rewards (valuable fringe benefits)	**.831**		.685
Social and psychological benefits (job Security)	**.770**		.617
Salary differentials (management must be free to reward people in whatever way best serves the company's interests)	**.662**		.449
Salary differentials (they are fair in the context of the company's system of values)	**.646**		.552
Salary differentials (they reflect the firm's own evaluation of the jobs people perform)	**.609**		.592
Rewards (better career prospects than other firms in the same industry)	**.580**		.664
Social and psychological benefits (the prestige of working for one of the top firms in the industry)	**.566**		.522
Salary differentials (they simply reflect the external market conditions)	.540		.301
Salary differentials (personal perception takes role)	.515		.298
Rewards (basic pay above the local level in the area)	.257		.118
		Factor Loadings	
Factor (2)		*Intrinsic incentives and rewards*	
Rewards (the opportunity to earn large bonuses through greater efforts)		**.756**	.648
Social and psychological benefits (friendly and supportive colleagues)		**.741**	.583
Rewards (annual salary increments above the inflation rate)		**.712**	.534
Social and psychological benefits (interesting and challenging work)		**.652**	.617
Eigenvalue	6.25		
% Variance explained	41.65		
KMO	.828		

Source: Author's analysis of data
Extraction method: principal component analysis
(2 components extracted)

5.4.2.6 Principal Component Factor Analysis of Perceived Financial Performance:

Table 5.8 demonstrates the outcome of principal component analysis of perceived financial performance. The results revealed that there is a clear conceptual association amongst the items in perceived financial performance. The analysis with an eigenvalue greater than 1 has generated only one factor, which explains 88.33% of the total variance. The items have marvellous individual loadings ranging from 0.84 to 0.98, thus emphasising extremely highly reliable items to measure this variable.

Table 5.8: Principal component factor analysis of perceived financial performance variable

Perceived financial performance	**Factor Loadings**	**Communalities**
Profitability	**.978**	.956
Sales revenue	**.975**	.951
Holding market share	**.958**	.918
HRM policies	**.842**	.708
Eigenvalue	3.53	
% Variance explained	88.33	
KMO	.84	

Source: Author's analysis of data
Extraction method: principal component analysis
(1 component extracted)

5.5 Confirmatory Factor Analysis—Reliability and Validity of the Research Constructs

Conducting exploratory factor analysis has assisted us in terms of identifying, summarising and grouping together the correlated data. The results of the analysis indicate a strong conceptual foundation of the constructs. As a result of the analysis, items comprising low factor loadings have been deleted as they lacked variations and caused interpretability problems at a conceptual level.

As stated earlier, factor analysis has numerous strands, which are exploratory and confirmatory factor analysis. Exploratory factor analysis is associated with theory development. Confirmatory factor analysis, on the other hand, is associated with theory testing, and is a sophisticated method used in advanced levels of research and often conducted through structural equations modelling (SEM).

In the context of this study, confirmatory factor analysis was carried out with the use of SEM. The justification behind conducting such an analysis is to test the goodness of the data and variables' unidimensionality in terms of constructs' reliability and validity. Fornell and Larcker (1981) and Hair *et al*. (2010) claim that convergent validity is tested by three main indicators. These are the factor loadings of each constructs, average variance extracted (AVE), and constructs' reliabilities. Discriminant validity, on the other hand, is tested by examining the constructs' correlations in comparison with the square root of the AVE values for these constructs (Fornell and Larker, 1981).

5.5.1 Reliability of the Research Constructs

Reliability is the consistency of the measurement, meaning that a scale or measurement tool should consistently reflect the construct it is measuring over time (Field, 2009). The inter-item consistency of the present research instrument was conducted by using Cronbach's alpha coefficient which is the most common measure of scale reliability developed by Cronbach (1951). Measuring the reliability by conducting Cronbach's alpha is a well-accepted and widely employed method in the academic world (Tabachnick and Fidell, 2007). Nunnally's (1967) suggests that alpha coefficient of .50 or greater is sufficient to draw the conclusion of internal consistency, whilst other scholars suggest a value of .70 or greater as an acceptable value for alpha coefficient (Sekaran, 2003). The results of the reliability test show that all scales have satisfied the reliability criterion, with Cronbach's alpha coefficients ranging from .61 to .95, as can be seen in Table 5.9.

5.5.2 Validity of the Research Constructs

Validity determines whether the constructs truly measure that which they were intended to measure or the accuracy of the research results (Golafshani, 2003). There are two common methods commonly associated with conducting validity tests and which are utilised in the social science research to measure the goodness of the research instrument: content validity and construct validity.

5.5.2.1 Content/Face Validity:

Content validity, also known as face validity, is a qualitative assessment of the relationship between the items and their constructs. Content validity is conducted through rating or evaluation by experts, professionals, and pre-tests with multiple sub-populations (Hair *et al*., 2010). Construct validity, on the other hand, is a quantitative assessment that can be easier conducted through various statistical techniques, such as confirmatory factor analysis, as explained in the next section. Content validity should be the first step to establishing the relationship between the variables or constructs and their measuring items. Graver and Mentzer (1999) argued that if the scale of measurement does not go through the process of content validity, it then cannot possess construct validity, irrespective of what the statistical analysis reveals. In this work, the researcher has extracted the items/questions of the research instrument from HRM literature through rigorous analysis process (see the literature review and the theoretical framework in Chapter Two and Chapter Three, and the process of the questionnaire development in Chapter Four, Section 4.5). In addition, all the items extracted have been reviewed and accordingly evaluated by some members of the faculty who are specialists on the present topic so as to ensure the logical flow of the items and their correspondence to the constructs they measure.

5.5.2.2 Constructs Validity (Convergent and Discriminant):

One of the primary objectives of using confirmatory factor analysis is to assess the construct validity. For our work, two types of construct validity have been tested: convergent and discriminant validities; the former is established when the indicators underlying a specific construct are highly correlated or share a high common variance,

whilst the latter, on the other hand, is established when two variables are predicated to be uncorrelated (Sekaran, 2003).

1. Convergent Validity

Confirmatory factor analysis provides three main indicators for assessing the convergent validity, which are factor loadings, average variance extracted (AVE), and reliability of the construct. The size of factor loading is viewed as being an important indicator to establishing convergent validity where all the factor loadings should be .5 or higher (Hair *et al*., 2010). High loadings indicate converge on a common point. The results show that all factor loadings of each construct indicator are significant, ranging from .55 to .98, thus demonstrating a strong association between constructs and their factors.

AVE gives the researcher information about the amount of variance explained by the construct in relation to the variance due to measurement error (Fornell and Larker, 1981). AVE considers a construct to establish convergent validity if it is at least .50 or higher (Fornell and Larker, 1981). AVE was computed to each construct where all values ranged from .50 to .80 as shown in Table 5.9. As a result, AVE values are higher than the threshold value of .50, thus demonstrating adequate convergence of the research constructs. Finally, reliability is the third indicator that could reflect convergent validity. Reliability for the research constructs have already been examined and explained in Section 5.5.1. The results of the reliability test show that all scales satisfy the reliability criterion. Taken together, as recorded in Table 5.9, the results of factor loadings, AVE, and reliability test provided sufficient confirmation of the convergent validity.

Table 5.9: Convergent validity (standardized factor loadings, average variance extracted, and reliability results)

Constructs	Recruitment & selection	Training	Internal career opportunity	Performance appraisals	Extrinsic incentives & rewards	Intrinsic incentives &rewards	Perceived financial performance
Recruitment & selection 1	**.853**						
Recruitment & selection 2	**.841**						
Recruitment &selection 3	**.834**						
Recruitment &selection 4	**.826**						
Recruitment &selection 5	**.796**						
Recruitment &selection 6	**.789**						
Recruitment &selection 7	**.699**						
Recruitment &selection 8	**.693**						
Recruitment &selection 9	**.689**						
Recruitment &selection 10	**.684**						
Recruitment &selection 11	**.629**						
Recruitment &selection 12	**.602**						
Training 1		**.838**					
Training 2		**.759**					
Training 3		**.559**					
Internal career opportunities 1			**.854**				
Internal career opportunities 2			**.831**				
Internal career opportunities 3			**.776**				
Internal career opportunities 4			**.757**				
Internal career opportunities 5			**.718**				
Performance appraisals 1				**.828**			
Performance appraisals 2				**.826**			
Extrinsic incentives & rewards 1					**0.880**		
Extrinsic incentives & rewards 2					**0.831**		
Extrinsic incentives &rewards 3					**0.770**		
Extrinsic incentives &rewards 4					**0.662**		
Extrinsic incentives &rewards 5					**0.646**		
Extrinsic incentives &rewards 6					**0.609**		
Extrinsic incentives &rewards 7					**0.580**		
Extrinsic incentives &rewards 8					**0.566**		
Intrinsic incentives &rewards 1						**0.756**	
Intrinsic incentives &rewards 2						**0.741**	
Intrinsic incentives &rewards 3						**0.712**	
Intrinsic incentives & rewards 4						**0.652**	
Perceived financial performance 1							**.978**
Perceived financial performance 2							**.975**
Perceived financial performance 3							**.958**
Perceived financial performance 4							**.842**
Average Variance Execrated (AVE)	**.56**	**.53**	**.63**	**.68**	**.50**	**.52**	**.79**
Reliability(cronbach's alpha)	**.93**	**.63**	**.83**	**.61**	**.77**	**.75**	**.95**

Source: Author's analysis of data

2. Discriminant Validity

Researchers conduct discriminant validity to make sure that the indicators for different constructs are different and not highly correlated in a way that they might measure the same thing. Each construct and its indicators should be different from any other construct and its indicators. Fornell and Larcker (1981) propose a method to test discriminant validity, claiming that the researcher can establish discriminant validity if the square root of the average variance extracted for a specific construct is greater than the absolute value of the standardized correlation of this specific construct with any other construct. Table 5.10 shows the constructs' correlations in comparison with their squared roots of the AVE values where the diagonal line represents these values. The squared roots of the AVE values are higher than any correlation value below the diagonal line which indicates an acceptable level of discriminant validity.

Table 5.10: Discriminant validity

Constructs	Recruitment and selection	Training	Internal career opportunities	Performance appraisals	Extrinsic incentives and rewards	Intrinsic incentives and rewards
Recruitment and selection	**.75**					
Training	.734(**)	**.73**				
Internal career opportunities	.670(**)	.675(**)	**.79**			
Performance appraisals	-.478(**)	-.520(**)	-.525(**)	**.82**		
Extrinsic incentives and rewards	.631(**)	. 652(**)	.679(**)	-.600(**)	**.71**	
Intrinsic incentives and rewards	.324(**)	.276(**)	.324(**)	-.150	.022	**.72**

Source: Author's analysis of data.
** Correlation is significant at the 0.01 level (2-tailed)
Diagonal elements are square roots of average variance extracted

5.6 Summary

This chapter has presented the data preparation process. The data from the effects of missing data, outliers and the assumption underlying the multivariate techniques were screened. The pattern of missing data occurred based on randomness, thus meaning that missing data could be considered missing completely at random. The outliers' analysis revealed no serious cases that could be considered as an extreme value. The results also indicate that all the data is normally distributed with the exception of the variables of firm age and firm size, which have been transformed by taking the logarithms of these variables. Results also revealed that the relationships between the research variables were homoscedastic and the independent variables are not highly correlated with each other.

We also performed exploratory and confirmatory factor analysis. The outcomes of principal component factor analysis generated only one factor for each variable except the variable incentives and rewards. Two factors were generated for this variable: the first factor is associated with extrinsic incentives and rewards such as pay increase, valuable fringe benefits, job security and prestige work; the second factor, in contrast, is associated with intrinsic incentives and rewards, such as interesting and challenging work and friendly and supportive work environment. With regard to the confirmatory factor analysis, the results revealed that factor loadings, AVE, and reliability test provide sufficient confirmation of the convergent validity. Results also indicated an acceptable level of discriminant validity of variables.

CHAPTER SIX: DATA ANALYSIS 'HYPOTHESES TESTING'

6.1 Introduction

The previous chapter presented the data preparation process. In this chapter, we take on the process of empirically testing the hypotheses derived from the literature review. We begin with a brief introduction to multiple regression analysis techniques, and its underlying assumptions. We then follow up with the empirical findings on our hypotheses.

6.2 Multiple Regression Analysis

Regression analysis is one of the most widely used techniques for analysing data—especially in the social sciences. It is a powerful tool for conducting predictions and assessing the relationship between one dependent (criterion) variable and several independent (predictors) variables. There are two main types of regression tests: simple regression for testing a relationship between a single independent variable and one dependent variable, and multiple regressions for testing a set of predictors with a dependent variable which is what we use for testing the present research hypotheses.

The regression equation can be stated as follows:

Equation 6.1: $y = a + b_1x_1 + b_2x_2 + ... + b_tx_t$

where *y* is the dependent variable, *a* is the *y* intercept, *x* values are the independent variables, and *b values* are the regression coefficients.

6.2.1 Assumptions of Multivariate Analysis

In order to garner truthful and accurate findings, data should be screened and tested from all the multivariate assumptions prior to conducting the regression analysis, such

as outliers, normality, linearity, multicollinearty and homoscedasticity (Brayman and Cramer, 2005; Tabachnick and Fidell, 2007; Field, 2009; Hair *et al.*, 2010). Researchers should also consider such issues in order to avoid any misunderstanding or distortion of the data. For instance, outliers have a negative impact on the regression solution and might affect the overall accuracy of regression weights estimations (Fox, 1991). Multicolinearity could also reduce any single independent variable's predictive power in the regression equation. As can be seen from the previous chapter, the data have passed all of these tests, with no serious problems found with regard to such assumptions.

Outliers test was conducted for all the research variables using box and whisker, normality probability plots and de-trended normal probability plots. The analysis revealed no extreme cases that could be considered as an outlier except very few cases of ROA and ROE, which are recognised as acceptable in such a case. Moreover, the results of normality test revealed that all the research variables' skewness and kurtosis values lie between the acceptable limit of ranges except the cases of firm size and firm age. Due to the extreme skewness of the data and the severe deviation from normality, firm size and firm age were transformed by taking the logarithms of these variables. Further, the relationships between the research variables were homoscedastic since all the research variables met the normality assumption. Nevertheless, in order to ensure that the relationships between variables met the assumption of homoscedasticity, bivariate scatterplots were conducted between variables, the results of which revealed homoscedastic relationships between variables. Finally, bivariate correlation was conducted in order to determine the linearity and multicolinearity of the research variables. The results of Pearson's correlation and the scatterplots matrix indicated that the independent variables are not highly correlated with each other.

6.3 Test of the First Hypothesis

The first hypothesis covers six HR practices as predictors and one outcome variable, which is employee turnover. The first hypothesis was stated as follows:

H1: HR practices—recruitment and selection, formal training system, internal career opportunities, formal performance appraisal system, extrinsic incentives and reward, intrinsic incentives and rewards—reduce employee turnover.

In order to test the aforementioned hypothesis, hierarchical or sequential multiple regression analysis was conducted through multiple steps. Hierarchical regression analysis is frequently conducted in HRM-performance research (Bae and Lawler, 2000). This type of analysis allows the researcher to examine the impact of some variables whilst controlling the effects of other variables; in other words, the level of explained variance of HR practices can be examined after adding them to a set of control variables. In the first step, control variables, including the logarithms of firm size and firm age were entered. In the second step, we entered all the HR practices in order to examine their effects on employee turnover.

As recorded in the hierarchical regression analysis for employee turnover in Table 6.1, the value of R^2 (determination coefficient) is highly significant (R^2 =.73, F = 30.92, p < .001), meaning that the predictors account for 73% of the variation in employee turnover rate. The *F*-ratio for this model is highly significant (30.92); this ratio is the ratio of the explained to the unexplained variation for this model. Such a ratio assesses how well the current regression model can predict an outcome compared with the error within this model (Field, 2009). In addition, the adjusted R^2 is .71, thus indicating how well this model generalises and ideally reflects the same, or close to, the value of R^2. In this case, the difference between R^2 and the adjusted R^2 is small (.73 - .71 = .02). The shrinkage reflects the idea that, if the model has been derived from the population rather than a sample, it would account for approximately 2% less variance in employee turnover. Some researchers have adopted Stein's equation to cross-validate the model as the adjusted R^2 has been criticised by not giving us how well the regression model would predict a completely different set of data (Field, 2009). R^2 in Stein's formula can give researchers an idea about how well the model cross-validates entirely different set of data. The formula of Stein's can be stated as follows:

Equation 6.2: Adjusted $R^2 = 1- \left[\left(\frac{n-1}{n-k-1}\right)\left(\frac{n-2}{n-k-2}\right)\left(\frac{n+1}{n}\right)\right](1 - R^2)$

where *n* is the sample size and *k* is the number of predictors in the model. The value of the adjusted R^2 resulted from the above formula is .70, which is almost the same value given from the regression model. As a result, this value indicates that the cross-validity of this model is very good.

With regard to the independent errors assumption (the lack of autocorrelation) of the model, this assumption can be tested with the Durbin-Watson test[4]. This test examines serial correlations between errors and whether or not residuals are correlated. The test values vary between 0 and 4, where the value of 2 means that the residuals are uncorrelated. As a rule of thumb, values lower than 1 and greater than 3 are certainly a cause for worry, whilst the closer the value is to 2, the greater acceptability and better results (Field, 2009). For this model, the value of Durbin-Watson test is 1.8, which is very close to 2. In other words, the assumption of independent errors is almost met for this model.

Moving on, having firm size and firm age controlled, significant changes in R^2 over what the controls significantly explained (R^2 =.069, F = 3.57, $p < .05$) provide preliminary support for the first hypothesis. Some of the HR practices in the second step are significantly related to employee turnover ($\Delta R^2 = .66$, F for $\Delta R^2 = 37.34$, $p < .001$). More specifically, three of the HR practices are significantly related to employee turnover: recruitment and selection ($b = -.19$, $p < .05$), training ($b = -.54$, $p < .001$), and internal career opportunities ($b = -.22$, $p < .05$). These results support some of the relationships specified in the first hypothesis. These results indicate that if more formal and organised training is given to the employees in the companies, a lower percentage of the employees leave the company every year. In addition, a greater use of the promotion from-within strategy as well as the implementation of more careful recruitment and selection plans leads to a lower employee turnover rate which

[4] The Durbin-Watson test is largely used in time-series data. However, the statistic of the test can be an important diagnostic indicator even when the researcher is not utilising time-series data. A statistically significant Durbin-Watson test when the researcher is testing a model based on cross-sectional data can be an indication of specification error such as omitted variables or incorrect functional form (Crown, 1998).

companies would suffer annually. Regarding the rest of the HR practices, the results indicate no unique contributions in their relationship with employee turnover.

Table 6.1: Hierarchical regression analysis for employee turnover with HR practices

Variables	Step 1		Step 2	
	Employee Turnover		**Employee Turnover**	
	B	Sig.	*B*	Sig.
Controls:				
Log. Firms Size	-.346	.010*	-.101	.197
Log. Firm Age	.178	.181	.220	.007**
HR Practices				
Recruitment and Selection			-.198	.034*
Training			-.537	.000***
Internal Career Opportunities			-.220	.039*
Performance Appraisals			-.017	.853
Extrinsic Incentives and Rewards			.004	.971
Intrinsic Incentives and Rewards			.004	.958
R^2	.069 (.050)		.73 (.710)	
ΔR^2	.069		.66	
F for ΔR^2	3.57*		37.34***	
Durbin-Watson	1.81			

Source: Author's analysis of data.
Notes: N = 99.
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.4 Test of the Second Hypothesis

This hypothesis tests the relationship between HR practices and financial performance in the targeted companies.

H2: HR practices—recruitment and selection, formal training system, internal career opportunities, formal performance appraisal system, extrinsic incentives

and reward, intrinsic incentives and reward—positively relate to financial performance. The positive financial performance can be measured in increased Return on Assets (ROA) and Return on Equity (ROE).

We conducted hierarchical multiple regression to test this hypothesis. In the first step, the control variables were entered, namely firm size and firm age, with all HR practices similarly entered in the second step so as to explore their effects on ROA and ROE.

The hierarchical regression for ROA and ROE is shown in Table 6.2. With regard to ROA, the values of R^2 and *F*-ratio for ROA model are highly significant (R^2 =.43, F = 8.42, $p < .001$), meaning that the predictors account for 43% of the variation in ROA. On the other hand, R^2 and *F*-ratio for ROE also shows a significant level of explanation (R^2 =.25, F = 3.83, $p < .05$), although not as much as in the case of ROA. In other words, from the above statistics, we can tell that HR practices are significantly better at predicting the outcome ROA than ROE.

Additionally, the adjusted R^2 values for ROA and ROE are .38 and .19 respectively, and the difference between R^2 and the adjusted R^2 is .05 for ROA and .06 for ROE. The shrinkage reflects the idea that if the model has been derived from the population rather than a sample it would account for approximately 5% and 6% less variance in ROA and ROE. Using Stein's equation, adjusted R^2 values for ROA and ROE are .36 and .16 respectively, which are very close to the observed values resulting from the regression model. As a result, such values suggest that the cross-validity of this model is good. Regarding the independent errors assumption, the Durbin-Watson test reveals no serious residuals correlation. The values for ROA and ROE are 2.2 and 2.1 respectively, which confirms that such models almost meet the independent errors assumption.

After controlling for firm size and firm age, the results show that HR practices explain significant incremental level of variance beyond what the controls explain in ROA (ΔR^2 = .38, F for ΔR^2 10.06, $p < .001$) and in ROE (ΔR^2 = .25, F for ΔR^2 = 4.94, $p <$ .001). As a result, we can conclude that the regression model results are significantly

better predicted ROA than ROE as can be seen from the value of *F* statistics for ΔR^2, which is markedly much higher than in the case of ROA. Nonetheless, such results provide only weak support for the second hypothesis in terms of the number of specified relationships with financial performance. Of the six HR practices, training is the only practice positively related to ROA ($b = .52$, $p < .01$) and marginally positively related to ROE ($b = .34$, $p < .10$). With regard to the rest of the HR practices, the results reveal no significant effects of these practices on financial performance.

Additional Test on Training

We conducted an additional regression test to explore the amount of variance that training could explain independently. Table 6.3 shows the results of the analysis of variance for these variables. We first entered firm size and firm age in the first step, followed by training in the second step, and finally all the HR practices, except training in the third step. It can be seen from the results of Table 6.3 that training is able to explain the significant incremental level of variance in ROA ($\Delta R^2 = .35$, *F* for $\Delta R^2 = 55.55$, $p < .001$) and in ROE ($\Delta R^2 = .20$, *F* for $\Delta R^2 = 24.49$, $p < .001$). Control variables, in contrast, had no significant incremental level of variance in ROA ($\Delta R^2 = .045$, *F* for $\Delta R^2 = 2.248$, $p > .10$) and in ROE ($\Delta R^2 = .008$, *F* for $\Delta R^2 = .383$, $p > .10$), and the rest of the HR practices did not contribute significantly to the level of variance in ROA ($\Delta R^2 = .031$, *F* for $\Delta R^2 = .974$, $p > .10$) and in ROE ($\Delta R^2 = .043$, *F* for $\Delta R^2 = 1.02$, $p > .10$). The results of this test confirm that training is the key variable amongst HR practices that positively impacts on the financial performance of the companies.

Table 6.2: Hierarchical regression analysis for ROA and ROE with HR practices

Variables	Step 1		Step 2		Step1		Step 2	
	ROA		**ROA**		**ROE**		**ROE**	
	B	Sig.	*B*	Sig.	*B*	Sig.	*B*	Sig.
Controls:								
Log. Firms Size	-.215	.112	-.341	.003**	.038	.782	-.050	.701
Log. Firm Age	.005	.970	-.087	.457	.59	.666	-.023	.861

HR Practices								
Recruitment and Selection			-.164	.225			-.197	.202
Training			.515	.001**			.336	.050†
Internal Career Opportunities			-.040	.795			.045	.797
Performance Appraisals			-.162	.221			-.159	.292
Extrinsic Incentives and Rewards			.190	.227			.189	.294
Intrinsic Incentives and Rewards			.019	.849			-.015	.898
R^2 ΔR^2 F for ΔR^2	.05 (.03) .05		.43 (.38) .38 10.06***		.008 (-.013) .008		.254 (.19) .25 4.94***	
Durbin-Watson	2.18				2.11			

Source: Author's analysis of data.
Notes: N = 99
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

Table 6.3: Analysis of variance for training and HR practices with financial performance

	Controls		**Training**		**HR practices**	
	ROA	ROE	ROA	ROE	ROA	ROE
R^2	.045 (.025)	.008 (-.013)	.397 (.378)	.211 (.186)	.428 (.377)	.254 (.187)

ΔR^2	.045	.008	.352	.203	.031	.043
F for ΔR^2	2.248	.383	55.55	24.49	.974	1.02
Sig. For ΔF	.111	.683	.000***	.000***	.438	.407

Source: Author's analysis of data.
Notes: N = 99
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.4.1 The Practical Consequences of HR Practices on Financial Performance

Huselid (1995) and Schmidt (1996) state that, in an applied domain, such as human resource management, it is better and more useful for researchers to move further away from conventional tests of statistical significance and to state the results in terms of practical significance; thus, to provide more precise and representative results, we subsequently assessed the practical significance of the impact of training as the only HR practice affecting financial performance by calculating the consequence of a one-standard-deviation increase in training on the numerator of each dependent variable. With regard to ROA, the value of the standardised *b* for training (.515) indicates that, as this variable increases by one standard deviation (2.78), ROA increases by 0.515 standard deviations. The standard deviation for ROA is 5.69, which constitutes a change of 2.93 in this outcome (.515 × 5.69). As a result, firms one standard deviation higher than the average in terms of training are estimated to be 2.93 higher in terms of ROA. As for ROE, in contrast, the value of the standardised *b* for training (.336) suggests that, as this variable increases by one standard deviation (2.78), ROE increases by 0.336 standard deviations. The standard deviation for ROE is 9.29, which contributes a change of 3.12 in ROE (.336 × 9.29). In other words, firms one standard deviation higher than the average in terms of training are considered to be 3.12 higher on ROE. As a result, considering that such models control for firm size and firm age, the impact of training on financial performance is practically, as well as statistically, significant. The results suggest that, as greater formal training is given to the employees, the greater the financial returns to the companies.

6.5 Test of the Third Hypothesis

Dyer and Reeves (1995) propose that HR practices most probably directly affect the HR-related outcomes, followed by organisational, financial and market outcomes. The logic behind it is that HR practices have their most direct impact on employee behaviours and attitudes which, for example, will result in low turnover, subsequently generating high financial outcomes. Thus, the research's third hypothesis tests this argument by mediating the relationship between HR practices and financial performance through employee turnover.

> *H3: Employee turnover mediates the relationship between HR practices and financial performance.*

Judd and Kenny (1981) and Baron and Kenny (1986) propose that there are three main steps in terms of establishing the mediation effect:

Step One: Researchers should first prove that there are significant effects of the independent variables (HR practices) on the dependent variable (ROA and ROE). This step is very important as it establishes that there is an effect that may be mediated, otherwise it is difficult to establish any mediation effects.

Step Two: Researchers next must find significant effects of the independent variables on the mediating variable (employee turnover). This step essentially involves treating the mediator variable as an outcome variable.

Step Three: Researchers in the third step should use the mediator variable (employee turnover) as predictor in the model with the main independent variables (HR practices) in its relation with the dependent variable (ROA and ROE).

As a result from the third step, the effect of the independent variable on the dependent variable will reduce upon the addition of the mediator to the model. If that effect becomes non-significant, we might then conclude that the mediator variable fully

mediates the relationship between the predictor and the outcome. In contrast, if the effect diminishes but is still significant, we might conclude that the mediator variable partially mediates the relationship between the predictor and the outcome (Judd and Kenny, 1981; Baron and Kenny, 1986; Atuahene-Gima and De Luca, 2007). Although these criteria can be used to informally judge whether or not there is a mediation effect between the independent and the dependent variables (Preacher and Hayes, 2004), the three-step method is still frequently used in HRM-performance research to investigate the mediation effects (for example, Huselid, 1995; Collins and Clark, 2003). In this context, Sobel (1982) and MacKinnon and Dwyer (1993) have popularised statistical based methods by which mediation may be formally assessed. As a result, this research employs Soblel's test proposed by these scholars in addition to the three-step method to test the third hypothesis.

We first conducted the three-step analysis approach to investigate the mediation effects for the third hypothesis. Table 6.4 shows the results of employee turnover as the mediating variable in the relationship between HR practices and financial performance. Following the first step, training was found to be the only variable involved in this test as it is the only practice that has positively affected financial performance (ROA and ROE) of the companies. For the remainder of the HR practices, they are unrelated to financial performance. Testing for mediation effects for the rest of the HR practices violates the first condition that Baron and Kenny (1986) have proposed. With regard to the second step, training has a positive impact on employee turnover when tested earlier as an outcome variable. Moving on to the third step, the mediator variable (employee turnover) was added to the model in addition to the main predicator. The inclusion of employee turnover leads to slight decrease of the standardised *b* for training from .515 to .481 in its relation with ROA. In contrast, the inclusion of the mediator variable leads to a slight increase of the standardised *b* for training from .336 to .362 in its relation with ROE.

Table 6.4: Mediation analysis for employee turnover

Variables	**ROA**		**ROE**	
	B	Sig.	*B*	Sig.

Training	.515	.001**	.336	.050†
Training (after the inclusion of employee turnover into the model as predictor)	.481	.006**	.362	.067†

Source: Author's analysis of data.
Notes: N = 99.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

If we could informally judge these results, we would conclude that employee turnover partially mediates the relationship between training and ROA as the standardised *b* (whilst remaining significant) has slightly decreased from .515 to .481 (Preacher and Hayes, 2004). On the other hand, it is safe to conclude that there is no evidence of mediation in the relationship between training and ROE as the value of the standardised *b* increased from .336 to .362.

It has been argued in the literature that the conditions of the statistical steps proposed by Baron and Kenny (1986) constrain the process of the mediation analysis (Preacher and Hayes, 2004). However, several researchers argue that such constraints can be overcome without hampering the validity of the mediation analysis (Atuahene-Gima and De Luca, 2007). As stated earlier, Sobel (1982) and MacKinnon and Dwyer (1993) propose statistical based methods by which mediation may be formally assessed. For instance, Sobel's test helps researchers to investigate the indirect effects of the independent variables—regardless of the significance of their total effects on the outcome (Atuahene-Gima and De Luca, 2007). Furthermore, such a test would help the researcher to establish the overall significance of the effect, whether full or partial. In other words, although the inclusion of the mediator variable caused a very slight decrease of the standardised *b* for training in its relationship with ROA, we still have no idea if that amount of reduction in the value of *b* is sufficient to establish or conclude if partial mediation effect exists. We conducted Sobel's equation, therefore, to confirm the existence or the absence of the mediation effect in this hypothesis. Sobel's equations can be stated as follows:

Equation 5.3: $z\text{-value} = a*b/SQRT(b^2*s_a^2 + a^2*s_b^2)$

where *a* is the un-standardized regression coefficient for the association between the independent variable and the mediator, and s_a is the standard error of *a*. Regarding *b*, it is the un-standardised regression coefficient for the association between the mediator and the dependent variable (when the independent variable is also a predictor of the dependent variable), and s_b is the standard error of *b*. Table 6.5 shows the results of Sobel's test. Having used Sobel's equation, the t-statistic for the Sobel test is 0.404, with an associated *p*-value of 0.68 in case of training as the independent variable and ROA as the dependent one. In contrast, the t-statistic is 0.217, with an associated *p*-value of 0.82 in case of ROE as the dependent variable. As a result, the fact that the observed *p*-value is not below the established alpha level of .05 indicates that the association between the predictor (training) and the outcomes (ROA and ROE) is not reduced significantly by the inclusion of the mediator (employee turnover) in the model (Preacher and Hayes, 2004). In other words, there is no evidence of mediation; thus, we can conclude from the outcome of Sobel's test that the slight decrease of the standardised *b* in the first case was not good enough to establish a partial mediation effect for employee turnover between training and ROA.

In addition, as researchers argue that they can use Sobel's test even for the independent variables that they are not significantly associated with the dependent variable, we conducted the same test for the rest of HR practices to investigate any mediation effects for employee turnover with any other practice. As shown in Table 6.5, the results of Sobel's test show that the observed *p*-values for the rest of the HR practices are not below the established alpha level of .05, which indicates that there is no evidence of mediation. Taken as a whole, these results, in fact, do not support the third hypothesis.

Table 6.5: Sobel's test for analysing the mediation effects of employee turnover

Variables	t-statistics		Standard Error		p-value	
	ROA	ROE	ROA	ROE	ROA	ROE
Training	0.404	0.217	0.475	0.920	0.68	0.82

Recruitment and Selection	0.398	0.266	0.177	0.328	0.69	0.79
Internal Career Opportunities	0.398	0.266	0.197	0.364	0.69	0.79
Performance Appraisals	0.166	-0.151	0.035	0.048	0.86	0.87
Extrinsic Incentives and Rewards	-0.038	0.038	-0.038	0.047	0.96	0.96
Intrinsic Incentives and Rewards	-0.052	0.051	0.024	0.030	0.95	0.95

Source: Author's analysis of data.
Notes: N = 99.
P is significant at the 0.05 level.

6.6 Test of the Fourth Hypothesis

The fourth hypothesis tests the relationship between the core aspects of SHRM as represented by strategic HR involvement and HR devolvement, and employee turnover.

> *H4: There is a negative relationship between strategic HR involvement and HR devolvement and employee turnover. Higher the involvement and devolvement, lower is the employee turnover.*

Table 6.6 shows the results of the hierarchical multiple regressions for this hypothesis. In the first step, control variables, the logarithms of firm size and firm age were entered. In the second step, strategic HR involvement and HR devolvement were also entered into the equation.

The value of R^2 is highly significant (R^2 =.62, F = 37.99, p < .001). In other words, 62% of the variance in the change in employee turnover rate can be explained by the predictors in the sequential regression without considering HR practices in the equation. The adjusted R^2 is .60, indicates the model could be generalised. Furthermore, the difference between R^2 and the adjusted R^2 is 2%, where the reduction reflects the idea that, if the model has been derived from the population rather than a sample, it would account for approximately 2% less variance in employee turnover. We also use Stein's equation in order to cross-validate the model in addition to the

normal adjusted R^2. The result of the adjusted R2 from Stein's formula is .59, which is almost the same value given by the regression model. As a result, this value indicates that the cross-validity of this model is very good (Field, 2009). Regarding the independent errors of the model, the value of Durbin-Watson test is 2.1, indicating that the assumption of independent errors is met for this model.

When firm size and firm age are controlled, significant changes in R^2 over what the controls significantly explained (R^2 =.069, F = 3.57, p < .05), provide initial support for this hypothesis as the core aspects of SHRM are significantly related to employee turnover (ΔR^2 = .55, F for ΔR^2 = 67.48, p < .001). In particular, strategic HR involvement is significantly related to employee turnover (b = -.77, p < .001), while HR devolvement is not (b = -.009, p > .10). Therefore, these results provide support for this hypothesis only in the case of strategic HR involvement in its relationship with employee turnover. These results indicate that the involvement of HRM in the formulation and implementation of the strategic planning process makes employees more committed to the company. In other words, when employees feel that they are given training, incentives, promotions and other related HR issues based on the overall strategic direction of the company, it would lead to a lower employee turnover rate which companies experience annually.

Table 6.6: Hierarchical regression analysis for employee turnover with strategic HR involvement and HR devolvement

Variables	Step 1		Step 2	
	Employee Turnover		**Employee Turnover**	
	B	Sig.	*B*	Sig.
Controls:				
Log. Firms Size	-.346	.010*	-.126	.161
Log. Firm Age	.178	.181	.169	.051†
Core Aspects of SHRM				
HR Involvement			-.766	.000***
HR Devolvement			-.009	.913
R^2	.069(.050)		.62(.602)	
ΔR^2	.069		.55	
F for ΔR^2	3.569*		67.485***	
Durbin-Watson	2.13			

Source: Author's analysis of data.
Notes: N = 99.
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.7 Test of the Fifth Hypothesis

During the course of testing this hypothesis, the relationship between the core aspects of SHRM, as represented by strategic HR involvement and HR devolvement and the financial performance of the companies measured by ROA and ROE, was assessed.

> *H5: There is a positive relationship between strategic HR involvement and HR devolvement and financial performance. Higher the involvement and devolvement, higher is the financial performance measured by ROA and ROE.*

The hierarchical multiple regressions is shown in Table 6.7, where the control variables were entered in the first step, and strategic HR involvement and HR devolvement were entered in the second step.

The value of R^2 for ROA model is significant (R^2 =.33, F = 11.49, p < .001), thus meaning the predictors account for 33% of the variation in ROA. R^2 for ROE, in contrast, also shows significant level of explanation of the outcome (R^2 =.16, F = 4.53, p < .05), but not as much as the amount explained in the case of ROA. In other words, from the above statistics, it can be concluded that the core aspects of SHRM are predicting ROA better than ROE.

What is more, the adjusted R^2 values for ROA and ROE are .30 and .13 respectively, and the difference between R^2 and the adjusted R^2 is .03 in both outcomes. This ratio tells us that the shrinkage reflects the idea that these two models account for approximately 3% less variance if they were to be taken from the population as opposed to the sample. Using Stein's equation, adjusted R^2 values for ROA and ROE are .29 and .12 respectively, which are very close to the normal adjusted R_2 values. As a result, these values indicate that the cross-validity of these models is acceptable. The Durbin-Watson test value for ROA and ROE is 2.0 in both cases, which is considered excellent. Hence, this value confirms that these models met the independent errors assumption.

After controlling for firm size and firm age in the sequential regression analysis, the results show that the core aspects of SHRM explain significant incremental level of variance in R^2 beyond what the controls explain in ROA (ΔR^2 = .28, F for ΔR^2 19.85, p < .001) and in ROE (ΔR^2 = .15, F for ΔR^2 = 8.62, p < .05). This provides a primary support for this hypothesis. Moving forward to the individual contribution for each predictor, the results of the regression analysis provide only support for strategic HR involvement as it significantly affects ROA (b = .48, p < .001) and ROE (b = .42, p < .01). HR devolvement, on the other hand, had no significant effects on ROA (b = .11, p > .10) and ROE (b = -.014, p > .10). As a result, the alignment between HRM and organisational strategy would improve the financial returns of the companies.

Table 6.7: Hierarchical regression analysis for ROA and ROE with HR strategic involvement and HR devolvement

Variables	Step 1		Step 2		Step1		Step 2	
	ROA		**ROA**		**ROE**		**ROE**	
	B	Sig.	*B*	Sig.	*B*	Sig.	*b*	Sig.
Controls:								
Log. Firms Size	-.215	.112	-.352	.004**	.038	.782	-.623	.535
Log. Firm Age	.005	.970	.002	.985	.059	.666	.512	.610
Core Aspects of SHRM								
Strategic HR Involvement			.477	.000***			.417	.001**
HR Devolvement			.112	.298			-.014	.909
R^2	.04 (.025)		.33 (.30)		.008 (-.013)		.16 (.13)	
ΔR^2	.04		.28		.008		.15	
F for ΔR^2			19.85***				8.62*	
Durbin-Watson	2.01				2.01			

Source: Author's analysis of data.
Notes: N = 99
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.7.1 The Practical Consequences of Strategic HR Involvement on Financial Performance

As stated earlier, it is better and more helpful for researchers to move further away from conventional tests of statistical significance and to instead state the results in terms of practical significance. With this in mind, the practical significance of the impact of HR involvement on ROA and ROE was subsequently assessed by calculating the consequence of a one-standard-deviation increase in HR involvement in organisational strategy on the numerator of each dependent variable. With regard to ROA, the value of the standardised *b* for strategic HR involvement (.477) indicates that as this variable increases by one standard deviation (.980), ROA increases by 0.477 standard deviations. The standard deviation for ROA is 5.69; thus, this constitutes a change of 2.71 in this outcome (.477 × 5.69). In other words, firms one

standard deviation higher than the average on strategic HR involvement are estimated to be 2.71 higher on ROA. In contrast, when considering ROE, the value of the standardised *b* for HR involvement (.417) indicates that, as this variable increases by one standard deviation (.980), ROE increases by 0.417 standard deviations. The standard deviation for ROE is 9.29, which contributes a change of 3.87 in ROE (.417 × 9.29). As a result, firms one standard deviation higher than the average on HR involvement are estimated to be 3.87 higher on ROE. Taking into account that these models control for firm size and firm age, the impact of strategic HR involvement on financial performance is practically as well as statistically significant. In other words, the results suggest that, as the alignment or integration between HRM and organisational strategy becomes greater, the financial returns to the companies reflect this by similarly increasing.

6.8 Test of the Sixth Hypothesis

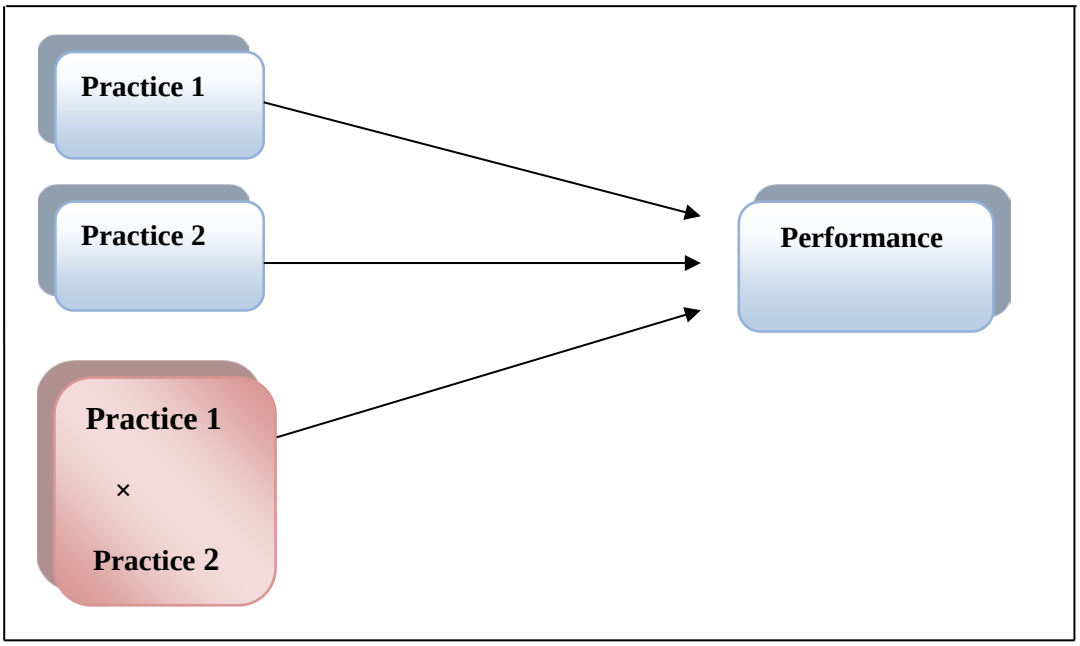
The literature shows that several researchers have examined the impacts of bundles or synergies (the internal or horizontal fit) of HR practices on organisational performance. For researchers, the rationale behind emphasising the complementary thesis is that HR complementarities or bundles of practices are the best way for the level of analysis when researchers want to investigate the impact of such practices on firm-level performance (Delaney and Huselid, 1996). Hence, this hypothesis tests the relationship between the complementarities of HR practices and financial performance.

> *H6: There is a positive relationship between the bundles or complementarities of HR practices and financial performance. The positive financial performance can be measured in increased ROA and ROE.*

Bundling or complementary thesis is one of the core theoretical concepts in SHRM. Nonetheless, the measurement of it is still a matter of debate amongst researchers (Guest, 2011). It is commonly assumed that the impact of HR complementarities on organisational outcomes must be more than simply the additive sum of each practice's independent effects (Macky and Boxall, 2007). Rather, the concept of the

complementarities of HR practices applies that such practices must have a synergistic or mutually reinforcing impact on performance (Huselid, 1995; MacDuffie, 1995; Ichniowski *et al*., 1997; Wood, 1999; Godard, 2004; Macky and Boxall, 2007). Accordingly, researchers who have examined such an argument take into consideration the interaction effects amongst HR practices as the best indicator of HR bundling. Furthermore, Huselid (1995) argue that researchers should examine the interaction effects or the internal fit amongst the practices in order to prove the impact of the complementary thesis. Figure 6.1 shows the synergistic perspective of the impact of HR practices on organisational performance.

Figure 6.1: The synergistic perspective: synergy between two practices



Source: Wood and Menezes (2008).

As suggested by researchers who have examined the complementarities thesis in SHRM (for example, Huselid, 1995; MucDuffie, 1995; Delaney and Huselid, 1996; Macky and Boxall, 2007; Wood and Menezes, 2008), the potential of complementarities or the internal fit was examined in terms of interactive relationship amongst HR practices (Venkatraman, 1989). As a result, we first tested the two-way interaction terms amongst HR practices to explore whether there is any synergistic

effect on financial performance; second, following the recommendation of Macky and Boxall (2007) and Guest *et al*. (2004), one more test was carried out in order to explore whether or not the whole interaction effects amongst HR practices would explain more percentage of the variance above the percentage that the individual HR practices explain.

It has been also argued that, when researchers examine the interaction effects between variables, they have to consider the issue of multicollinearity arising from the interaction terms (Datta *et al*., 2005). Such an issue may be biasing the regression model. Hence, an assessment was carried out in regard to whether the issue of multicollinearity is a serious problem; this was done by computing the variance inflation factors (VIF). The VIF indicates whether the independent variable has a strong linear relationship with other independent variables. A value of 10 is a good value at which to be concerned (Datta *et al*., 2005; Field, 2009). As shown in Table 6.8, none of the VIFs approached the threshold value of 10. In other words, no multicollinearity is evident.

Table 6.8 shows the standardised regression coefficients for the synergistic or interaction effects amongst HR practices. The results do not support the stated hypothesis. Only one statistically significant interaction effect is found to impact both ROA and ROE. The interaction between internal career opportunities and performance appraisals has a positive significant effect on ROA ($b = .608$, $p < .05$) and ROE ($b = .641$, $p < .05$). In terms of the rest of the interaction terms amongst HR practices, no significant interaction effects are found as can be clearly seen from the results in Table 6.8.

Table 6.8: Hierarchical regression analysis for ROA and ROE with HR complementarities

Variables	Step 1		Step 2		Step1		Step 2	
	ROA		**ROA**		**ROE**		**ROE**	
	B	Sig.	*B*	Sig.	*B*	Sig.	*B*	Sig.
Controls:	-.215	.112	-.219	.194	.038	.782	.003	.984
Log. Firms Size	.005	.970	0.12	.937	.059	.666	.077	.619
Log. Firm Age								
	VIF							
HR Practices								
Recruitment and Selection × Training	6.446		-.166	.519			-.211	.412
Recruitment and Selection × Internal Career Opportunities	7.283		.063	.818			.148	.589
Recruitment and Selection × Performance Appraisals	8.036		-.280	.332			-.184	.522
Recruitment and Selection × Extrinsic Incentives and Rewards	9.060		.158	.606			.209	.494
Recruitment and Selection × Intrinsic Incentives and Rewards	4.852		.335	.137			.316	.160
Training × Internal Career Opportunities	6.746		.214	.419			.190	.471
Training × Performance Appraisals	9.266		.037	.905			-.285	.357
Training × Extrinsic Incentives and Rewards	5.033		-.341	.137			-.303	.183
Training × Intrinsic Incentives and Rewards	6.452		-.386	.137			-.388	.127
Internal Career Opportunities × Performance Appraisals	8.244		.608	.040*			.641	.030*
Internal Career Opportunities × Extrinsic Incentives and Rewards	4.995		.064	.776			.057	.801
Internal Career Opportunities × Intrinsic Incentives and Rewards	3.500		.050	.791			-.113	.553
Performance Appraisals × Extrinsic Incentives and Rewards	8.381		-.356	.228			-.209	.476
Performance Appraisals × Intrinsic Incentives and Rewards	5.364		-.218	.354			-.376	.112
Extrinsic Incentives and Rewards × Intrinsic Incentives and Rewards	2.804		.069	.683			.182	.287

Source: Author's analysis of data

Notes: N = 99.

Standardised regression coefficients are shown.

† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

Additional Test on HR Bundles:

As recommended by Macky and Boxall (2007) and Guest *et al*. (2004), a further test was implemented, the results of which are shown in Table 6.9, which illustrate whether the entire interaction affects amongst HR practices would explain more percentage of the variance above the percentage that the individual HR practices explain. It can be seen from the analysis of variance results that HR complementarities did not explain any significant amount to the variance after what controls and individual HR practices explain in either ROA ($\Delta R^2 = .069$, F for $\Delta R^2 = .974$, $p > .10$) or ROE ($\Delta R^2 = .104$, F for $\Delta R^2 = .810$, $p > .10$). These results confirm that the bundles of HR practices do not positively impact financial performance and the individual effects of HR practices affect performance better than a bundle or system of practices.

Table 6.9: Analysis of variance for individual HR practices and HR complementarities with financial performance

	Controls		**Individual HR Practices**		**HR complementarities**	
	ROA	ROE	ROA	ROE	ROA	ROE
R^2	.045 (.025)	.008 (-.013)	.428 (.377)	.254 (.187)	.497 (.343)	.358 (.161)
ΔR^2	.045	.008	.383	.246	.069	.104
F for ΔR^2	2.248	.383	10.058	4.943	.974	.810
Sig. F change	.111	.683	.000***	.000***	.787	.664

Source: Author's analysis of data.
Notes: N = 99
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.9 Test of the Seventh Hypothesis

Researchers have extensively used subjective measures to assess organisational performance. In the context of this hypothesis, we tested the relationship between HR practices and perceived financial performance of the companies.

> *H7: There is a positive relationship between HR practices—recruitment and selection, formal training system, internal career opportunities, formal performance appraisal system, extrinsic incentives and reward, intrinsic incentives and reward - and perceived financial performance.*

The results of the hierarchical multiple regressions are shown in Table 6.10. In the first step, the control variables were entered, namely firm size and firm age, with all HR practices subsequently entered in the second step so as to examine their effects on perceived financial performance.

The value of R^2 is highly significant (R^2 =.75, F = 43.29, p < .001). Additionally, the adjusted R^2 value is .73, and the difference between R^2 and the adjusted R^2 is .02. As explained in the previous analysis, the shrinkage reflects the idea that, if the model has been derived from the population than a sample, this would account for approximately 2% less variance in perceived financial performance. Using Stein's equation, the adjusted R^2 value is .72, which is almost the same of the adjusted R^2 resulted from the regression model. As a result, this value indicates that the cross-validity of this model is good. The Durbin-Watson test revealed no serious residuals correlation. The value is 1.8, which confirms that this model is almost met the independent errors assumption.

With firm size and firm age controlled, the results show that HR practices explain a strong significant incremental level of variance in R^2 beyond what the controls explain in perceived financial performance (ΔR^2 = .72, F for ΔR^2 43.85, p < .001). Looking at the individual contributions for each practice, training significantly affects perceived financial performance (b = .30, p < .01). In addition, internal career opportunities (b = .20, p < .05), as well as extrinsic incentives and rewards (b = .33, p < .01) also have significant impacts on perceived financial performance. With regard to the rest of the

HR practices, the results revealed no significant effects of (recruitment and selection, performance appraisal system, and intrinsic incentives and rewards) on perceived financial performance. It can be clearly seen from the results of the regression analysis that HR practices in the targeted companies can better impact perceived financial performance than the actual financial performance as measured by ROA and ROE.

Table 6.10: Hierarchical regression analysis for perceived financial performance

Variables	Step 1		Step 2	
	Perceived financial performance		**Perceived financial performance**	
	B	Sig.	*B*	Sig.
Controls:				
Log. Firms Size	-.125	.358	.139	.066†
Log. Firm Age	-.066	.627	-.012	.875
HR Practices				
Recruitment and Selection			.134	.134
Training			.301	.003**
Internal Career Opportunities			.204	.047*
Performance Appraisals			.026	.764
Extrinsic Incentives and Rewards			.326	.002**
Intrinsic Incentives and Rewards			.059	.363
R^2	.031 (.011)		.753 (.731)	
ΔR^2	.031		.72	
F for ΔR^2	1.526		43.853***	
Durbin-Watson	1.82			

Source: Author's analysis of data.
Notes: N = 99.
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

6.10 Test of the Eighth Hypothesis

This hypothesis is related to the role of HR directors in general. Several authors (for example, Budhwar, 2000; Andersen *et al*., 2007) have urged researchers to first

evaluate the level of strategic HR involvement and devolvement that HR directors play in organisations prior to investigating their direct impact on organisational performance. Hence, as we investigate the impact of strategic HR involvement and HR devolvement on organisational performance, HR directors were first questioned on their roles and activities within their organisations in the first section of the questionnaire. The following general hypothesis helps us in terms of validating what is argued in the HRM literature, i.e. that the role of HR directors has become much more strategic, as opposed to simply comprise routine functions that a personnel director performed until recently.

> *H8: There is a strategic shift in the HR directors roles' increasing involvement in the affairs of the business by way of their involvement in the strategic functions and by permitting them to delegate routine HR functions to junior staff for them to concentrate on strategic issues of long term importance*.

This general hypothesis about the strategic nature of the role of HR directors is divided into the following sub-hypotheses:

> *$H8_1$: The role of the HR director in a modern-day organisation has moved away from the routine functions (such as headhunting, training, job evaluation) to strategic functions (such as contributing to planning and implementing the business and corporate strategies and organisational designs).*
>
> *$H8_2$: The role of the HR director has distinctly changed over the past few years, thus becoming more influential in strategic decision-making.*
>
> *$H8_3$: The HR director becomes influential with the board, and regularly attends board meetings. This is a logical corollary to $H8_1$ and $H8_2$.*
>
> *$H8_4$: The HR director now routinely delegates day-to-day HR work to line/junior directors for them to be able to concentrate on strategic functions.*

Proportion tests were carried out to test the aforementioned hypotheses. For

proportions test, the null hypothesis, H_0 for all the attributes is that the ratio $p_1 = p_2$, and the alternative hypothesis, H_1 is that $p_1 > p_2$. The *Z-values* that can be computed as below follow a normal distribution with zero mean and unit standard deviation.

Equation 5.4: $Z \cong \frac{p1-p1}{\sqrt{p(1-p).(\frac{1}{n1}+\frac{1}{n2})}}$, *where* $p_1 = \frac{X_1}{n1}$, $p_1 = \frac{X_2}{n2}$, *and* $p = \frac{X_1+X_2}{n1+n2}$.

6.10.1 Routine and Strategic HR Functions

> *$H8_1$: The role of the HR director in a modern-day organisation has moved away from the routine functions (such as headhunting, training, job evaluation) to strategic functions (such as contributing to planning and implementing the business and corporate strategies and organisational designs).*

Table 6.11 presents the response to the question that asked respondents, 'What activities of the HR director are of greatest strategic significant to the company?' Column 1 lists the possible jobs HR directors are likely to perform in various intensities; Column 2 lists the number of respondents who did not think that the listed job was of a great deal of significance; and Column 3 lists the number of respondents who thought that the listed job was of a great deal of significance. Although not presented to respondents as such, for the purpose of analysis, responses are classified into two broad groups: routine and strategic. Let us first consider the strategic chores.

Approximately 45% of the HR directors stated that 'Contribution to planning and implementing the business and corporate strategies' and 'Advising on organisational design' have both become important activities for them, and despite a higher number—around 55% of the directors—rating this as not a very significant activity for them, the higher response is considered statistically insignificant. Interestingly, what is highly significant is the large number of routine responses HR directors said viewed as not important to them, namely headhunting, planning career paths, job evaluations, and compliance with equal opportunities, all of which came to be rated as not very significant for the HR directors. With this in mind, it is stated that this non-

importance is statistically significant as well. The message this question relays is that the role of HR directors is shifting, albeit gradually in the direction of being strategic.

Table 6.11: Significance of routine and strategic functions

Response to question 'what activities of the HR director are of greatest significance to the company?	Proportion responding as not so significant[A] (p_1)	Proportion responding as very significant[B] (p_2)	*z statistics* ($H_0: p_1 = p_2$)
Col-1	Col-2	Col-3	Col-4
Routine			
1. Headhunting (searching skilled employees)	67	32	3.52***
2. Contribute to succession planning	54	45	0.90
3. Organising training programmes	26	73	4.72***
4 Planning career paths for management development	65	34	3.12***
5. Job evaluation	75	24	5.13***
6. Monitoring and assessing employee performance	25	74	4.92***
7 Ensuring compliance with equal opportunities legislation	73	26	4.72***
Strategic			
8. Contribute to planning and implementing the business and corporate strategies',	54	45	0.90
9.Advising on organisational design	54	45	0.90

Source: Author's analysis of data.
Notes: N = 99.
[A]include responses 1-3 on 5 point scale (5 'very significant').
[B]include responses 4,5. ***significant at .01 level.

6.10.2 Dynamics of the HR Director's Role

$H8_2$: The role of the HR director has distinctly changed over the past few years, thus becoming more influential in strategic decision-making.

$H8_3$: The HR director becomes influential with the board, and regularly attends board meetings. This is a logical corollary to $H8_1$ and $H8_2$.

In order to understand whether the role of HR director has undergone a shift in the past 5–10 years, four clear questions were posed, asking respondents to provide a clear

'yes' or 'no' to these questions. The reason behind not using the Likert scale here was to remove any ambiguity in answers. The questions posed were as follows:

'How has the role of HR director changed over the past 5–10 years?', the five options to which they were to tick a clear 'yes' or 'no' were: (a) the role of HR director has become more influential in strategic decision making; (b) review of training needs; (c) the level of commitment which can be expected from employees has become lower; (d) the training budget carries a higher priority; and (e) frequent job rotation has become more common for middle directors. The replies to this question are summarised in Table 6.12. The first one is a direct question asking whether the role has become more influential in strategic decision-making. Around 58% of the respondents responded positively, with proportion's test showing that this response is significant at .10 confidence level ($z = 1.4$). On the other hand, the replies to the three remaining questions of non-strategic nature are also statistically significant at various levels between .01 and .10; *z values* respectively = -3.20; -2.0; -6.2. The *z* values are calculated under the null hypothesis of equal proportion versus alternative hypothesis of larger value being significantly larger than the smaller value. Although we would have liked to see the response to this question strategically significant at a higher level (than at present .10), the replies to the remaining three questions do indirectly confirm that the HR director's role in strategic decision-making is on the rise, albeit slowly, and in non-strategic routine matters on the decline.

Table 6.12: Dynamics of HR director's role (A)

Response to question: How has the role of HR director changed over the last 5-10 years?	Response count (chosen)	Response count (blank)	Total
1. HR director has become more influential in strategic decision making	57	42	99
2. Negotiations with trade unions have become easier	34	65	99
3. The level of commitment which can be expected from employees has become lower	40	59	99
4. Training budget carries a higher priority	19	80	99

Source: Author's analysis of data.
Notes: N= 99

Table 6.13 reports the replies to the question on HR directors' representations on the board meetings relating to Hypothesis 8_3. A Board of Directors is a body of appointed members who jointly oversee the activities of a company. The body sometimes has a different name, such as Board of Governors, Board of Directors, Board of Trustees, or Executive Board. Importantly, the board carries the responsibility for the overall management of the group and the approval of the group's long-term objectives and commercial strategy, as well as review of performance in the light of the group's strategy, objectives, business plans, and budgets.

The summary results displayed in Table 6.13 are revealing: 41% of all respondents said that they attend all board meetings; 21% attend by invitation when HR issues are discussed; 23% do not attend but supply reports when HR matters are discussed. Furthermore, only 14% of the respondents said that they implement policies determined by the board without participation in board meetings. Thus, barring the last group of 14% of HR directors who simply take orders from the board on matters relating to human resources, the remaining 86% have some form of direct or indirect involvement with matters of HR and have interface with the board; of these, 41.4% seem to have a direct say in the matters relating to HR within the company. Results show that 41.4% and over 21% of all HR directors now either attend all board meetings or are invited to attend when HR matters are discussed. Combining these two responses, we can infer that a statistically significant 63% ($z = 2.8$; .01 significance

level*)* of all HR directors now have a say in the strategic business-related and HR-specific issues when they are discussed in the board. This supports the stated hypothesis.

Table 6.13: Dynamics of HR director's role (B)

Response to question: Would you please rate the representation of HR directors on the board meetings?	Attends all board meetings.	Attends by invitation when HR matters are discussed.	Does not attend but supplies reports for discussion by the board.	Implements policies determined by the board, but does not participate	Total
Frequency count	41	21	23	14	99
Percentage	41.4	21.2	23.2	14.1	100

Source: Author's analysis of data.
Notes: N= 99

6.10.3 Delegation of HR Functions

$H8_4$: The HR director now routinely delegates day-to-day HR work to line/junior directors for them to be able to concentrate on strategic functions.

The notion of a modern HR director is built around the belief that, in the present-day world of SHRM, the HR director—unlike its predecessor personnel director—no longer worries about the routine jobs, which tend to be delegated to line managers. Instead, the HR director is more concerned with the strategic side of HR issues and decisions about which he would be more concerned. The only way of establishing this was to pose two straightforward questions of this nature to HR directors: 'How important is the delegation of the following to line/junior managers: (a) day-to-day HR work (b) HR strategic decision-making. For this question, we provided a five-point Likert scale ranging from 'not important' to 'very important'. In order to analyse the responses in (a), we combined responses 4 and 5 as being 'important' and tested them against the 'not important', in which we combined responses 1 to 3. With this in mind, 60% of the respondents agreed that it is very important for them to delegate day-to-day HR work to junior managers for them to be able to concentrate strategic issues. This response is statistically significant (z =2.2*;* significant at .05 level).

In order to analyse the replies to (b), we combined the replies with ticks 1 to 3 as ‘not important’ and found that 96% of all HR directors did not find it essential in any way to delegate HR strategic decisions to junior line managers. This is clearly a highly significant proportion. The logical deduction from this is that, whereas HR directors are quite happy to delegate routine work to line managers, they would certainly prefer to keep the control of any strategic decision-making functions in their own hands.

Table 6.14 summarises the results of the regression analysis conducted in the present research.

Table 6.14: Summary of the regression analysis results

Hypotheses	Standardised regression coefficient	Statement

H1: HR practices reduce employee turnover.		
H1₁: Recruitment and selection -- employee turnover	-.198	Significant
H1₂: Training – employee turnover	-.537	Significant
H1₃: Internal career opportunities – employee turnover	-.220	Significant
H1₄: Performance appraisals – employee turnover	-.017	Not significant
H1₅: Extrinsic incentives and rewards – employee turnover	.004	Not significant
H1₆: Intrinsic incentives and rewards – employee turnover	.004	Not significant
H2: HR practices positively relate to financial performance. The positive financial performance can be measured in increased ROA and ROE.		
H2₁: Recruitment and selection – financial performance	ROA: -.164	Not significant
	ROE: -.197	Not significant
H2₂: Training - financial performance	ROA: .515	Significant
	ROE: .336	Marginally significant
H2₃: Internal career opportunities - financial performance	ROA: -.040	Not significant
	ROE: .045	Not significant
H2₄: Performance appraisals - financial performance	ROA: -.162	Not significant
	ROE: -.159	Not significant
H2₅: Extrinsic incentives and rewards - financial performance	ROA: .190	Not significant
	ROE: .189	Not significant
H2₆: Intrinsic incentives and rewards - financial performance	ROA: .019	Not significant
	ROE: -.015	Not significant
***H3:* Employee turnover mediates the relationship between HR practices and financial performance.**		
H3₁: Recruitment and selection -employee turnover –financial performance	ROA: P-value= 0.69	Not significant
	ROE: P-value= 0.79	Not significant
H3₂: Training - employee turnover - financial performance	ROA P-value= 0.68	Not significant
	ROE: P-value= 0.82	Not significant
H3₃: Internal career opportunities - employee turnover - financial performance	ROA: P-value= 0.69	Not significant
	ROE: P-value= 0.79	Not significant
H3₄: Performance appraisals - employee turnover - financial	ROA: P-value= 0.86	Not significant

performance	ROE: P-value= 0.87	Not significant
H3₅: Extrinsic incentives and rewards - employee turnover-financial performance	ROA: P-value= 0.96	Not significant
	ROE: P-value= 096	Not significant
H3₆: Intrinsic incentives and rewards - employee turnover-financial performance	ROA: P-value= 0.95	Not significant
	ROE: P-value= 0.95	Not significant
***H4:* There is a negative relationship between strategic HR involvement and HR devolvement and employee turnover. Higher the involvement and devolvement, lower is the employee turnover.**		
H4₁: Strategic HR involvement – employee turnover	-.766	Significant
H4₂: HR devolvement – employee turnover	-.009	Not significant
***H5:* There is a positive relationship between strategic HR involvement and HR devolvement and financial performance. Higher the involvement and devolvement, higher is the financial performance measured by ROA and ROE.**		
H5₁: Strategic HR involvement – financial performance	ROA: .477	Significant
	ROE: .417	Significant
H5₂: HR devolvement – financial performance	ROA: .112	Not significant
	ROE -0.14	Not significant
H6: There is a positive relationship between the bundles or complementarities of HR practices and financial performance. The positive financial performance can be measured in increased ROA and ROE.		
H6₁: Recruitment and selection × training – financial performance	ROA: -.166	Not significant
	ROE: -.211	Not significant
H6₂: Recruitment and selection × internal career opportunities - financial performance	ROA: .063	Not significant
	ROE: .148	Not significant
H6₃: Recruitment and selection × performance appraisals - financial performance	ROA: -.280	Not significant
	ROE: -.184	Not significant
H6₄: Recruitment and selection × extrinsic incentives and rewards - financial performance	ROA: .158	Not significant
	ROE: .209	Not significant
H6₅: Recruitment and selection × intrinsic incentives and rewards - financial performance	ROA: .335	Not significant
	ROE: .316	Not significant
H6₆: training × internal career opportunities - financial performance	ROA: .214	Not significant
	ROE: .190	Not significant

H6₇: Training × performance appraisals - financial performance	ROA: .037	Not significant
	ROE: -.285	Not significant
H6₈: Training × extrinsic incentives and rewards - financial performance	ROA: -.341	Not significant
	ROE: -.303	Not significant
H6₉: Training × intrinsic incentives and Rewards - financial performance	ROA: -.386	Not significant
	ROE: -.388	Not significant
H6₁₀: Internal career opportunities × performance appraisals - financial performance	ROA: .608	Significant
	ROE: .641	Significant
H6₁₁: Internal career opportunities × extrinsic Incentives and rewards- financial performance	ROA: .064	Not significant
	ROE: .057	Not significant
H6₁₂: Internal career opportunities × intrinsic incentives and rewards - financial performance	ROA: .050	Not significant
	ROE: -.113	Not significant
H6₁₃: Performance appraisals × extrinsic incentives and rewards - financial performance	ROA: -.356	Not significant
	ROE: -.209	Not significant
H6₁₄: Performance appraisals × intrinsic incentives and rewards - financial performance	ROA: -.218	Not significant
	ROE: -.376	Not significant
H6₁₅: Extrinsic incentives and rewards × intrinsic incentives and reward - financial performance	ROA: .069	Not significant
	ROE: .182	Not significant
***H7:* There is a positive relationship between HR practices and perceived financial performance.**		
H7₁: Recruitment and selection – perceived financial performance	.134	Not significant
H7₂: Training – perceived financial performance	.301	Significant
H2₃: Internal career opportunities – perceived financial performance	.204	Significant
H7₄: Performance appraisals – perceived financial performance	.026	Not significant
H7₅: Extrinsic incentives and rewards – perceived financial performance	.326	Significant
H7₆: Intrinsic incentives and rewards – perceived financial performance	0.59	Not significant

Source: Author's analysis of data.
Notes: † p < .10, *p < .05, **p < .01, ***p < .001
P-values for the mediation tests are significant at the 0.05 level

6.11 Summary

This chapter has presented the results of the hypotheses-testing, with the findings showing that recruitment and selection, training, and internal career opportunities are significantly related to employee turnover. Training was found to be the only HR practice significantly and practically related to financial performance. The test revealed that firms one standard deviation higher than the average on training are estimated to be 2.93 higher on ROA and 3.12 higher on ROE. The results also revealed that employee turnover did not mediate the relationship between HR practices and financial performance. With regard to the core aspects of SHRM, a positive impact of strategic HR involvement on employee turnover and financial performance was found, whilst HR devolvement had no effects on both outcomes. Practically, the test revealed that firms one standard deviation higher than the average on strategic HR involvement are estimated to be 2.71 higher on ROA and 3.87 higher on ROE. In relation to HR complementarities, the findings did not support this argument as only one significant interaction effect was found out of fifteen. The results confirmed that the individual effects of HR practices affect financial performance better than a bundle or system of practices. In addition, the results indicated that training, internal career opportunities, and extrinsic incentives and rewards were significantly related to perceived financial performance.

We also set out to test four explicitly stated hypotheses on the modern-day role of HR directors, each of which stated that a modern-day HR director would delegate routine functions to junior staff and instead concentrate on strategic functions, such as contributing to planning and implementing business and corporate strategies. We concluded from the results of these hypotheses that the role of HR directors is in the process of a gradual shift to be more strategic in its nature.

CHAPTER SEVEN: DISCUSSION AND CONCLUSIONS

7.1 Introduction

This chapter summarises the key findings and draws conclusions based on the key results arrived at throughout the empirical investigation of the data. To facilitate the discussion, the results were grouped under eight hypotheses and subsequently put to test in this work. The implications and contributions made in the present research were then presented, followed by the limitations and avenues for future research.

7.2 Research Hypotheses and Main Findings

7.2.1 The First Hypothesis

This hypothesis tested the direct impact of HR practices—recruitment and selection, formal training system, internal career opportunities, formal performance appraisal system, extrinsic incentives and reward, and intrinsic incentives and rewards—on employee turnover as one of the subjective behavioural indicators reflecting organisational performance. In HRM-performance literature—and considering the notion of this link having emerged—two basic paths of research stream have been developed to examine the relationship between HRM and performance. The first one is based on the direct relationship between individual HR practices and/or bundles or systems of practices and organisational performance (Schuler and Jackson, 1999; Chand and Katou, 2007). The second research stream, on the other hand, is based on the indirect relationship between individual HR practices and/or bundles of practices and organisational performance (Wright and Gardner, 2003). Our first hypothesis examined the direct relationship between HRM and performance, and it was tested using sequential multiple regression.

The results supported some of the relationships specified in the hypothesis. Markedly, three of the HR practices were found to be significantly and strongly related to employee turnover, including recruitment and selection, training, and internal career

opportunities. For the remainder of the HR practices, the results revealed no unique contributions in their relationship with employee turnover. Our results indicate that, if an extensive formal training is given to the employees, a lower percentage of the employees would leave the company. In addition, a greater use of the promotion policy from within the company and the implementation of a careful recruitment and selection plan could potentially lead to lower employee turnover rate.

These findings support the theoretical and empirical work to date. HRM researchers have shown that HR practices could strongly lead to a lower turnover rate. For instance, this results support Arthur's (1994) study in steel mini mills in the USA, which found that training leads to higher productivity, lower scrap rates, and lower employee turnover. Furthermore, the results are consistent with the work of Huselid (1995), where an empirical investigation was carried out concerning the effectiveness of the HRM-performance link in the publicly quoted companies in the the US. Huselid's study found that internal promotion and selection have a negative relationship with employee turnover; these results also support the findings of Guthrie's (2001) study, which found that training and internal career opportunities are negatively associated with employee turnover. In addition to these studies, the results come in-line with other previous studies (for example, Vandenberg *et al*., 1999; Batts, 2002; Guest *et al*., 2003; Guthrie *et al*., 2009), which have found strong direct effects of HRM practices on employee turnover. Our results contradict with some other work, such as that of Wood *et al*. (2006) and their empirical results, which revealed no associations between the mentioned HRM practices and employee turnover.

In this context, when it comes to the direct effects of the HR practices on employee turnover, we would expect further associations between these variables—especially that employee turnover is considered as a behavioural outcome of organisational performance unlike other market or financial indicators. As a result, effective and well-planned HR practices could logically have their direct impact on employees' behaviours in a positive way, such as employee turnover. As recognised in the HRM-performance literature, Dyer and Reeves (1995) classified the performance outcomes as HR-related outcomes (for example, turnover, absenteeism, job satisfaction, commitment), organisational outcomes (for example, productivity, quality, service,

efficiencies), and financial accounting outcomes (for example, profits, sales, return on assets, return on investment). This research took into account employee turnover as a HR-related outcome. Dyer and Reeves (1995) have argued that HR practices most likely do directly affect the HR-related outcomes, such as employee turnover, followed by organisational, financial and market outcomes. The logic behind this theoretical proposition is that HR practices have their most direct impact on employees' behaviours and attitudes, which results in a low turnover rate, which subsequently generates higher financial outcomes. In summary, the results from our first hypothesis support this theoretical proposition in the HRM-performance literature by finding strong associations between HR practices and employee turnover as a HR-related outcome.

7.2.2 The Second Hypothesis

This hypothesis considers the direct relationship between HR practices and financial performance measured by ROA and ROE. The results obtained provide only weak support for this hypothesis in terms of the number of the specified practices with financial performance. Of the six HR practices, training was found to be the only practice positively related to ROA and marginally positively related to ROE. With regard to the rest of the HR practices—recruitment and selection, performance appraisal system, internal career opportunities, extrinsic incentives and rewards, and intrinsic incentives and rewards—the results revealed no significant effects on ROA and ROE.

Subsequently, the practical significance of the impact of training was examined as the only HR practice affecting financial performance on ROA and ROE; this was achieved by calculating the consequence of a one-standard-deviation increase in training on the numerator of each dependent variable. The results showed that firms one standard deviation higher than the average on training emphasis could lead to a 2.93 higher on ROA. As for ROE, in contrast, firms one standard deviation higher than the average on training emphasis is estimated to lead to a 3.12 higher on ROE. As a result, considering that these models control for firm size and firm age, the impact of training on financial performance was statistically and practically significant. In summary, the

greater the formal training given to employees, the greater the financial returns to the companies.

In the past, very few studies have employed objective financial indicators, such as ROA and ROE, which makes comparisons difficult. However, broadly speaking—and regardless of the type of performance measures used—the results of this are found to be consistent with some of the work that has been done in this area. For instance, Delaney and Huselid (1996) have examined the impact of HRM on the perceptions of organisational performance in profit and non-profit US firms. They found a strong association between training and organisational performance indicators. Additionally, Vandenberg *et al*. (1999) have examined the impact of HRM practices on organisational effectiveness by taking a sample of 3,570 participants across 49 organisations. Their results demonstrated a positive association between training and financial performance measured by ROE. In another work, the relationship between HRM and organisational performance was explored in 50 business units in the US food services company by Wright *et al*. (2003). The results showed that HR practices (training, selection, and pay for performance) were positively related to the profit of the company. Furthermore, Chand and Katou (2007) confirmed the impact of HRM practices on organisational performance in the Indian hotel industry. The results showed that the formal training system, as one of the HR practices chosen by them, was positively related to profitability and growth. Training was also proven as one of the HR practices that affect profitability by Joseph and Dai (2009). More recently, Moideenkutty *et al*. (2011) and Razouk (2011) have also confirmed training as being one of the core HR practices potentially affecting the profitability of the companies.

Although these studies are found to be consistent with our results, all have found positive impact of most HR practices—and not only training. Therefore, our results do not tally with these studies in terms of the impacts of the other HR practices on performance. In fact, we believe that the main reason for such differences of not finding or lacking other significant effects for the rest of HR practices on performance is that most previous studies have linked the HR practices with subjective indicators rather than objective indicators. It may be more appropriate for HRM researchers to use multi-dimensional measures for organisational performance that would include

some objective variables to reduce the probability of common method variance (Wall and Wood, 2005) and to thereby avoid misleading normative and descriptive theory-building (Lumpkin and Dess, 1996). As recognised in the HRM literature, objective measures reflect the economic rationality, thus emphasising outcomes, such as productivity and other financial indicators. Subjective measures, in contrast, reflect the normative rationality which emphasise more behavioural and societal aspects of organisational performance.

As stated earlier, most of the studies delving into the HRM-performance link have used subjective measures of financial performance, thus making it difficult for us to compare our results with the same financial indicators, such as ROA and ROE. Nevertheless, there is only one study conducted by Delery and Doty (1996) in the context of the HRM-performance debate, which was applied to US banks and which objectively utilised both ROA and ROE with HRM practices. They found that only three HR practices were significantly related to either or both ROA and ROE. These were results-oriented appraisals, employment security, and profit-sharing. They did not find any significant relationship between training and internal career opportunities and financial performance. These results are different from our results. In our results, we have found training to be the only HR practice positively related to ROA and ROE. Referring back to the proposition made by Dyer and Reeves (1995)—that HR practices would most probably directly affect the HR-related outcomes, followed by organisational, financial and market outcomes—we would strongly agree, based on the current research results, with the theoretical proposition as we have found that HR practices are positively related to employee turnover as a behavioural and HR-related outcome, much more so than to financial outcomes, such as ROA and ROE. Notably, however, the significance of the latter results are also considered important.

The first and the second hypotheses confirmed the effective role of training and its strong impact on the different performance outcomes in organisations. This is thoroughly consistent with what Way (2002) argues in terms of the formal training system providing and developing employees' skills, abilities and behaviours, and thus motivating them to apply these skills and behaviours in their work-related activities

which, in turn, may improve their output to increases the organisational effectiveness and performance.

Considering the results as a whole, it seems that, given a bundle of good HR practices, each practice might have varying impacts on organisational performance through enhancing the employee retention rate and thereby improving their positive input to the company. Of these HR practices, training stands out as an all-important one which, when coupled with other good HR practices, would lead to improved financial performance, which is clearly the end-goal of all organisations.

7.2.3 The Third Hypothesis

This hypothesis tested whether employee turnover mediates the relationship between HR practices and financial performance. One line of research demonstrates that either separate or in a bundle, HRM practices do not directly impact on organisational performance (for example, Katou and Budhwar, 2006) and that HR practices at best only impact some mediator variables which in turn, will impact organisational performance (Dyer and Reeves, 1995; Becker and Gerhart, 1996; Paauwe and Richardson, 1997; Guest, 1997; Wright and Gardner, 2003; Collins and Clark, 2003; Paauwe, 2009). Unlike the first and second hypotheses, this hypothesis is concerned with the indirect relationship between HRM and organisational performance.

This hypothesis addresses the call of many HRM researchers (for example, Dyer and Reeves, 1995; Wright and Gardner, 2003; Paauwe, 2009; Guest, 2011) for testing HRM-performance frameworks with different mediating variables, i.e., to go in the ‘black box’ of HRM-performance research. Few HRM researchers have conducted studies searching inside the ‘black box’ to unearth as to which HR practice(s) could most effectively impact firm performance (Way, 2002; Ahmed and Schroeder, 2003; Katou and Budhwar, 2006; Beltran-Martin, 2008). Because there is no established method available to researchers to determine which HR practices could (indirectly) impact on organisational performance, little attention has been paid to exploring this aspect of research any further (Wright and Gardner, 2003).

We tested this hypothesis using the three-step approach and Sobel's test to investigate the mediation effects. Our results show that employee turnover partially mediates the relationship between training and ROA as the standardised *b* (whilst remaining significant) decreased from .515 to .481. We did not find any evidence of mediation in the relationship between training and ROE (as the value of the standardised *b* increased from .336 to .362). Although the conditions of the statistical steps proposed by Baron and Kenny (1986) constrain the process of the mediation analysis, researchers have nevertheless argued that such constraints can be overcome without hampering the validity of the mediation analysis (Atuahene-Gima and De Luca, 2007); therefore, we next employed Sobel's test, through which mediation can be formally assessed if it is full, partial or completely lacking mediation. The outcome of Sobel's test confirmed that we cannot establish a partial mediation effect for employee turnover between training and ROA; these results also reveal that the evidence of mediation with the rest of HR practices is lacking. In summary, our statistical tests did not support the third hypothesis.

The results of third hypothesis provide support the universalistic approach rather than the contingency approach to SHRM. Universalistic researchers argue that a group of best HR practices will continuously and directly generate superior organisational performance regardless of the circumstances and the industry. Contingency theory researchers, in contrast, claim that the achievement of high performance is contingent upon the achievement of fit between HRM practices and other aspects of the organisation. In other words, organisations usually go through different stages in their lifecycle, and HR practices should be contingent upon such stages. Our findings failed to support such an argument and instead went in favour of universalistic approach.

Comparing these results with previous works, researchers have adopted a variety of different mediating variables to establish whether or not there is an effective HRM-performance link mechanism, such as employee turnover, employee productivity, motivations, role of technology, market orientation, and HR flexibility. Employee turnover has been used extensively in HRM literature as an important performance outcome (for example, Arthur, 1994; Shaw *et al*., 1998; Wood and De Menezes, 1998; Ramsey *et al*., 2000; Richard and Johnson, 2001; Guthrie, 2001; Way, 2002; Bat,

2002; Chang and Chen, 2002; Guest *et al*., 2003; Paul and Anantharaman, 2003); however, very few studies have considered it as a mediator. For researchers who used employee turnover as a mediating variable in their HRM-performance models, our results are consistent with their work. For instance, Huselid's (1995) study used employee turnover and productivity as mediator variables in the HRM-performance model. The empirical results of Huselid's study revealed no sufficient conditions to establish that mediation exists. Additionally, Fey (1999) has found a weak partial mediation for HR-related outcomes (motivation, retention, capability development) in the relationship between HR practices and organisational performance.

In this context—and after reviewing the work that has been done in HRM-performance—we would agree with Wright and Gardner (2003) when they argue that there is no established method available to researchers to follow to determine as to which HR practices could (indirectly) impact organisational performance, which is recognised as the main reason explaining the limited attention afforded to further exploring research in this direction. Notably, we believe that HRM researchers could place more efforts on the theoretical aspects of HRM and performance theories (Paauwe, 2009; Guest, 2011) separately prior to conducting studies on different mediating variables. In other words, a group of HR practices should be identified, with important performance measures also needing to be accurate and identified as well; otherwise, we will continue to use different HR practices and different performance measures in each single study. As a result, various mediating variables that could have significantly mediated the relationship between HRM and performance might lose their mediation positive effects in other studies with totally different HR practices and performance measures.

7.2.4 The Fourth and Fifth Hypotheses

These two hypotheses examined the impact of the core aspects of SHRM (strategic HR involvement and HR devolvement) on organisational performance. The fourth hypothesis is related to the behavioural (subjective) aspects of organisational performance as it tested if there is a relationship between the issues of strategic HR involvement and HR devolvement and employee turnover. The fifth hypothesis, in contrast, considered the impact of the core aspects of SHRM on the objective aspects

of performance which is the financial results of the companies. Both hypotheses were tested using a hierarchical multiple regression.

In the strategic HRM literature, there two core aspects of SHRM: the integration or the involvement of HR functions into the business and corporate strategy, and the devolvement of HR practices execution to line managers. Literature on strategic HR involvement and devolvement is intimately linked with the adherence to the notion of strategic HRM; thus, if it is true that, in the modern-day corporate world, HR is a valued asset and has to be used optimally to achieve organisation goals, then to do so there needs to be effective involvement and integration within the strategic activities of the firm, as well as the devolution of the day-to-day HR issues to line managers. The issue of involving HR directors of an enterprise into the strategic affairs of the company is a hugely important and is presently recognised as a hotly debated issue in academic and corporate world. The importance of this issue arises from the arguments that HR directors who are strategically involved in the functioning of the enterprise with devolved power in their hands will contribute positively to the growth of the company. It is considered that this will occur in the shape of reduced employee turnover and better financial performance for the company.

The results showed that strategic HR involvement is significantly related to employee turnover whilst HR devolvement is not. Accordingly, such results provide support for the fourth hypothesis but only in the case of strategic HR involvement in its relationship with employee turnover. The results further indicate that the involvement of HR directors in the formulation and implementation of the strategic planning process will make employees more committed to the company. In other words, when employees feel that they have been recruited and given training, incentives and rewards, internal promotions and other related HR benefits based on the overall strategic direction of the company rather than based on some *ad hoc* issues, this leads to a lower employee turnover. In regard to the relationship of the core aspects of SHRM with financial performance, the results provide support for strategic HR involvement as it significantly affected ROA and ROE. HR devolvement, in contrast, is seen to have no significant effects on financial outcomes; therefore, it seems that

the alignment between HRM and organisational strategy would improve the financial performance of the companies (measured in our case by ROA and ROE).

We subsequently assessed the practical significance of the impact of strategic HR involvement on ROA and ROE by calculating the consequence of a one-standard-deviation increase in HR involvement in organisational strategy on the numerator of each dependent variable. The results revealed that firms one standard deviation higher than the average on strategic HR involvement are estimated to be 2.71 higher on ROA. As for ROE, in contrast, the results showed that firms one standard deviation higher than the average on strategic HR involvement are estimated to be 3.87 higher on ROE. Taking into account that such models control for firm size and firm age, the impact of strategic HR involvement on financial performance was practically as well as statistically significant; in other words, the results tell us that as greater alignment or integration between HRM and organisational strategy, the greater the financial returns to the companies.

As predicated, there is seen to be a significant positive relationship between strategic HR involvement and financial performance, but unexpectedly not with HR devolvement. It seems that the alignment between HRM and organisational strategic goals and objectives improve the financial performance of the companies. Such findings are consistent with previous work, and have established a positive relationship between the core aspects of SHRM and perceived indicators of organisational performance and employee turnover. For instance, Richard and Johnson (2001) have examined whether the core aspects of SHRM significantly affects perceived organisational performance. Results showed that SHRM has significantly reduced employee turnover and increased overall market performance assessment (ROE, and productivity). Furthermore, Andersen *et al*. (2007) have investigated the effect of SHRM (in terms of the integration between human resource and strategic management process and the devolvement of HR practices to line managers) on perceived financial performance. Their results indicate that the degree of alignment between HR and strategic management process has a positive relationship with perceived financial performance. Our results are consistent with the work of Wright *et al*. (1999), with the scholars establishing a positive relationship

between HR involvement and organisational effectiveness. They have pointed out the fact that HR directors greatly value their jobs when they are involved in strategic decision-making. The current research findings are also consistent with other previous work that have determined a positive relationship between strategic HR involvement and perceived indicators of financial performance (for example, Buyens and De Vos, 1999; Appleby and Mavin, 2000; Karami *et al*., 2008). However, it should be pointed out that our findings are not aligned with some studies (for example, Buyens and De Vos 1999; Appleby and Mavin, 2000; Andersen *et al*., 2007), during which some authors have found a weak-to-moderate positive relationship between HR devolvement and perceived organisational performance.

As an overall view, the empirical results from Hypothesis 5 and Hypothesis 6 have raised various doubts concerning the intentions of companies. It seems that having gone to some extent in strategically involving HR directors in the affairs of the company, the moot question remains as to how far they actually go in devolving or empowering the day to day HR work to line managers.

7.2.5 The Sixth Hypothesis

This hypothesis investigated the impact of the complementarities or the internal fit of the whole HR practice on financial performance. As noticed in the HRM literature, researchers have examined the impact of individual or a specific bundle of HR practices on performance on the presumption that they are the appropriate level of analysis to examine the impact of organisation-level performances (Delaney and Huselid, 1996; Razouk, 2011). Internal fit relates to one of the main theoretical aspects in strategic HRM (MacDuffie, 1995; Macky and Boxall, 2007). It is all about the belief that HR practices should be integrated or incorporated as a coherent system of practices that are mutually supportive (Delery, 1998), which may be represented by bundling the HR practices. A bundle of practices should generate greater effects as the whole is greater than the sum of its parts. For instance, to recruit and select good employees without training them or to otherwise train and develop them without giving them the authority to make decisions would produce few effects; on the other hand, implementing the three practices together would produce greater effects (Wall

and Wood, 2005). This is in contrast to individual HR practices which, in isolation, can produce only a limited amount of competitive positive impact (Barney, 1995). The sixth hypothesis was formulated to test the argument of the complementary thesis of HR practices and to examine if the synergies of HR practices can produce more effects than their individual effects.

Bundling or complementary thesis is one of the core theoretical concerns in strategic HRM literature. However, the measurement of this argument is still a matter of debate amongst HRM researchers, and little progress has been made in this area (Guest, 2011). Statistically, it is commonly assumed that the impact of HR complementarities on organisational outcomes must be more than simply the additive sum of each practice's independent effects (Macky and Boxall, 2007). Rather, the concept of the complementarities of HR practices applies that these practices must have a synergistic or mutually reinforcing impact on performance (Huselid, 1995; MacDuffie, 1995; Ichniowski *et al*., 1997; Wood, 1999; Godard, 2004; Macky and Boxall, 2007; Razouk, 2011). As a result, researchers seeking to examine HR practices as a bundle should take into consideration the interaction effects amongst HR practices as the best indicator of HR bundling. Huselid (1995) also argue that researchers should examine the interaction effects or the internal fit amongst the practices in order to prove the impact of the complementarities. Following researchers who have examined HR complementarities in strategic HRM (for example, Huselid, 1995; MucDuffie, 1995; Delaney and Huselid, 1996; Macky and Boxall, 2007; Wood and Menezes, 2008), the potential of complementarities was examined in terms of interactive relationship amongst HR practices.

Interaction effects were tested amongst HR practices and the results failed to support the complementary thesis hypothesis. Of 15 interaction effects amongst HR practices, only one statistically significant interaction effect was found to impact both ROA and ROE. The interaction between internal career opportunities and performance appraisals had a positive significant effect on ROA and ROE. Regarding the rest of the interaction terms amongst HR practices, no significant interaction effects were found. In addition, we examined whether the whole interaction effects amongst HR practices would explain more percentage of the variance above the percentage that the

individual HR practices explain. The results proved that HR complementarities did not explain any significant amount to the variance after what controls and HR practices have explained in either ROA or ROE. Taken as a whole, these results failed to confirm that the configurations or complementarities of HR practices do positively impact performance and confirmed that the individual effects of HR practices affect performance better than a bundle or system of practices.

Despite the compelling theoretical argument of the complementarily thesis, our test of the interaction effects or the internal fit of HR practices failed to support the complementarities argument of HR practices. These results support what Panayotopoulou *et al*. (2003) have concluded, i.e. that the HRM-performance research has failed to consistently support or establish the efficacy of fit. These results are in-line with other studies that have tested this argument in literature. For instance, in their study on the US banks, Delery and Doty (1996) investigated the effects of HR practices as individual practices and as a bundle of practices by testing the interaction effects. Delery and Doty's (1996) empirical results revealed that the individual HR practices can produce more effects than a bundle of practices since no support was found for HR practices interaction tests. Furthermore, Ahmed and Schroeder (2003) conducted a study in 107 manufacturing plants in USA, Germany, Italy and Japan, attempting to generalise the efficacy of the seven HRM practices proposed by Pfeffer in the context of country and industry; it focused on the effects of these practices on operational performance. The findings provided an overall support for Pfeffer's seven HRM practices as individual practices, but the study failed to prove that bundles or synergies of HR practices impact on operational performance. In another study examining the relationship between HPWS and employees attitudes, Macky and Boxall (2007) also failed to find positive interaction effects amongst HR practices when they tested the complementarities thesis. Additionally, our findings are consistent with some other work that have examined this argument and failed to prove any positive significant interactions amongst HR practices (for example, Appelbaum *et al*., 2000; Cappelli and Neumark, 2001). Nonetheless, it should be pointed out that our findings are not completely aligned with some studies, which at least confirmed a low-to-modest evidence of the internal fit on organisational performance (for example, Huselid, 1995; Guest *et al*., 2003).

In addition, our findings did not provide support for the 'configurational' approach. As stated in HRM literature, Delery and Doty (1996) have identified the third group of researchers who are adopting 'configurational' approach. Such researchers argue that this approach is more complex and aims to identify configurations or unique ideal types of factors that are posited to be maximally effective. Hence, testing for the 'configurational' approach takes into consideration the internal or the horizontal fit of HR practices (Razouk, 2011).

7.2.6 The Seventh Hypothesis

As most of studies concerning the HRM-performance link preferred to use subjective measures of performance (for example, Delaney and Huselid, 1996; Wright *et al*., 1999; Fey *et al*., 2000; Green *et al*., 2006; Joseph and Dai, 2009; Katou and Budhwar, 2010; Razouk, 2011), this hypothesis tests the relationship between HR practices—recruitment and selection, formal training system, internal career opportunities, formal performance appraisal system, extrinsic incentives and reward, and intrinsic incentives and rewards—and perceived financial performance using hierarchical multiple regression. The literature shows that most researchers have employed subjective measures to assess organisational performance since they consider the validity of these measures as good enough (Razouk, 2011). Markedly, some researchers have found a positive correlation between subjective and objective measures of organisational performance (for example, Dess and Robinson, 1984; Geringer and Hebert, 1991; Powell, 1992). In addition, subjective measures of organisational performance enable managers to factor in companies' objectives when evaluating their performance. Although such measures may introduce limitations through the increased measurement errors and the potential bias, the benefits overweigh the risks (Fey *et al*., 2000).

Having tested this hypothesis, the results show that training strongly and significantly affects perceived financial performance. Furthermore, internal career opportunities and extrinsic incentives and rewards also have significant impacts on perceived financial performance. With regard to the rest of the HR practices, the results revealed

no significant effects of recruitment and selection, performance appraisal system, and intrinsic incentives and rewards on perceived financial performance. Such findings are consistent with the majority of the previous work where researchers have found positive associations between HR practices and perceptual measures of organisational performance (for example, Delaney and Huselid, 1996; Wright, 2003; Chand and Katou, 2007; Joseph and Dai, 2009; Razouki, 2011; Moideenkutty *et al*., 2011).

Comparing the results of this hypothesis with our second hypothesis, it can be noticed from the results of the analysis that HR practices may better impact perceived financial performance than the actual financial performance measured by ROA and ROE. With firm size and firm age controlled, the results show that HR practices explain a strong significant incremental level of variance in R^2 beyond what the controls explain in perceived financial performance ($\Delta R^2 = .72$, F for ΔR^2 43.85, $p < .001$), whilst the same practices explain much less significant incremental level of variance beyond what the controls explain in ROA ($\Delta R^2 = .38$, F for ΔR^2 10.06, $p < .001$) and in ROE ($\Delta R^2 = .25$, F for $\Delta R^2 = 4.94$, $p < .001$). Additionally, comparing the individual contributions of HR practices, training was as the only HR practice which significantly affected the actual financial performance measured by ROA and ROE, whilst in this hypothesis, on the other hand, three HR practices (training, internal career opportunities, and extrinsic incentives and rewards) are significantly related to perceived financial performance.

Based on our results and comparisons, we would agree with some researchers who argue that it would be more rewarding for HRM researchers to use multi-dimensional measures for organisational performance as these measures should include some objective measures to reduce the probability of common method variance (Wall and Wood, 2005) and thus avoid misleading normative and descriptive theory building (Lumpkin and Dess, 1996). Such an argument is strengthened by the results of our hypotheses on HR practices and actual and perceived organisational performance.

7.2.7 The Eighth Hypothesis

There is now increasing evidence in the literature to suggest that, as a result of market

pressure, in order to be competitive, the role of HR director has become much more strategic as opposed to doing routine functions that a personnel manager performed until recently (Huselid, 1995; Storey, 1995). It is said that the strategic nature has taken the shape of the role of HR directors' increasing involvement in the affairs of the business by way of his involvement in the overall strategic process and board meetings, and also by permitting him to delegate routine HR functions to junior staff for him to concentrate on strategic issues of long term importance (Carroll, 1991; Wright and Boswell, 2002).

We set out to test four explicitly stated sub-hypotheses on the modern-day role of HR directors. These hypotheses state that a modern-day HR director would delegate routine functions to junior staff and instead concentrate on strategic functions, such as contributing to planning and implementing business and corporate strategies. Descriptive and inferential statistics were utilised to test these hypotheses, the results of which are informative. A significant proportion of HR directors did confirm that routine operations (headhunting, organising training programmes, etc.) were no longer important to them, which is a finding considered to be in-line with some existing literature (Budhwar, 2000; Antila, 2006). However, notably, we did not find statistically significant results for strategic functions (contribution to planning, implementing business and corporate strategies and such) for our HR directors. Only 45% confirmed that these activities were now more important to their roles. We conclude from these results that the role of HR directors is in the process of a gradual shift. Such a conclusion supports the majority of the proposed models in the role of HR managers in HRM literature (Carrol, 1991; Storey, 1992; Ulrich. 1997b; Truss *et al*., 2002), thus reflecting the idea that HR managers' role has taken a shift to be more business-oriented, more strategic, and more focused on organisational change. This conclusion is further strengthened by a separate question in which we explicitly asked how their role has changed during the past 5–10 years. In answer to this question, 58% did confirm that it has become more influential in decision-making. It seems that, although the importance of routine operations is on the decline for HR directors, strategic importance is only gradually rising. The qualitative robustness of these results is confirmed in that, as yet, only 41% HR directors attend all board meetings. It seems that, although strategic functions for HR directors are gaining in importance,

the directors are still finely balancing them with routine functions. In addition, in regard to the HR devolvement issue, as the results showed in Chapter Five, 60% of the HR directors agreed that it was very important for them to delegate day-to-day HR work to junior managers for them to be able to concentrate strategic issues; this is clearly a highly significant proportion. The logical deduction from this is that, whereas HR directors are quite happy to delegate routine work to line managers, they would definitely prefer to keep the control of any strategic decision-making functions in their own hands.

We live in a dynamic world dominated by private enterprises which are always looking into newer lines of business into which to diversify or to integrate into their existing lines of specialisation. At the same time, they are under pressure to make optimal use of physical and human resources to cut costs and become competitive (Casson *et al*., 1995, 1996, 1997; Pfeffer, 1998; Becker and Huselid, 1998; Khandekar and Sharma, 2005; Sun and Pan, 2011; Guest, 2011). Furthermore, change—although imminent in a modern-day business environment—has costs attached to it in terms of time consumed in planning and the implementation of policy issues, irrespective of how grand, noble or pious. This seems to be the case with regard to the implementation of strategic HR policies for the good of the enterprise

The talk of SHRM in a modern-day world can be loudly heard in academic circles and in the corporate world where scores of training programmes can be found on people management. If our results are to be taken as any indication, the shift from routine functions to strategic functions then appears gradual; however, this is understandable given the complexities the change encompasses and the resistance it can cause. HR directors may be the drivers of strategic HR changes, but they are also aware of the complexities of its implementations. We therefore suggest that future studies of this nature could concentrate more on the dynamic side of the strategic change, i.e., how the change comes about or how it is implemented.

7.3 Research Conclusions

7.3.1 Theoretical Implications

The findings of this research raise several important theoretical and practical implications for both HRM theorists and practitioners:

Firstly, this research finds a positive relationship between strategic HRM and the overall organisational performance represented by employee turnover, ROA and ROE. The present work provides support for the universalistic HRM theorists (for example, Pfeffer, 1994, 1998; MacDuffie, 1995; Ahmad and Schroeder, 2002; Guest *et al*., 2003; Wood and De Menezes, 2008) rather than the contingency approach (for example, Schuler and Jackson, 1999) or the configurational approach theorists (for example, Miles and Snow, 1984; Arthur, 1992).

Secondly, the outcomes of this research do not support the theoretical proposition in HRM literature concerning the indirect relationship between HRM and organisational performance; although they do give more support to the theoretical proposition that argues that only the direct relationship between the variables is effective. Such results encourage researchers to produce more work on the HRM-performance link to investigate the relationship between HRM and organisational performance directly.

Thirdly, despite the compelling theoretical argument of the complementary thesis, the test of the interaction effects or the internal fit of HR practices failed to support the bundles or complementarities argument of HR practices. Such findings confirm that the effective individual practices of HRM would affect organisational performance much better and stronger than dealing with them as bundles of practices which may not be enforced with all the vigour and sincerity.

Fourthly, conducting research in regard to the HRM-performance link could always include objective measures of financial performance. Although some researchers have found positive correlations between subjective and objective measures of financial performance, it can be clearly noticed from the results of our work that HR practices can much more keenly impact perceived financial performance than the actual

financial performance. Such results could further suggest or doubt the strong proved effects of SHRM on the subjective financial performance measures conducted by many researchers.

Fifthly, this research confirms strategic HR involvement as one of the most important theoretical aspects in SHRM. Having tested the effectiveness of this variable, it was found to be statistically and practically impacting on all performance indicators; hence, considering the involvement of HR directors in the strategic affairs of the company is very essential in SHRM theory.

Sixthly, an interesting theoretical insight is the structure of incentives and rewards resulting from the test of factor analysis. It is well known that incentives and rewards is a wide-ranging feature in HR practice, wherein several sub-practices are incorporated within this term. It is actually confusing the way in which HRM researchers have considered or dealt with this practice in their studies: some of these studies included 10–15 HR practices, whilst more than half of these practices can be classified under incentives and rewards as one HR practice. In actual fact, incentives and rewards may include many HR practices, such as promotions, pay increase, appreciation for good efforts, valuable fringe benefits, interesting and challenging work, friendly and supportive colleagues, job security, and prestige of work. Our analysis brings about a useful approach in terms of considering or measuring incentives and rewards in the context of future HRM-performance studies. The outcome of the principal component factor analysis conducted in this work has extracted two factors for this practice. The first factor is more keenly associated with extrinsic incentives and rewards (financial and nonfinancial extrinsic incentives and rewards), such as pay above the industry level, valuable fringe benefits, and job security. The second factor, in contrast, is more associated with intrinsic incentives and rewards such as interesting and challenging work, appreciation of employees' efforts, and friendly and supportive work environment. As a result, we labelled the first factor as extrinsic incentives and rewards, whilst the second factor was referred to as intrinsic incentives and rewards. Interestingly, the resulted structure of incentives and rewards in this research is consistent with some of the theoretical structures proposed in HRM literature (for example, DeCenzo and Robbins, 2005). These

scholars proposed a theoretical structure for incentives and rewards where all practices related to high pay, promotions, valuable fringe benefits, and work prestige are classified under the term ‘extrinsic incentives and rewards’; on the other hand, all practices related to social activities, interesting and challenging work, supportive work environment, freedom and more responsibility are described as ‘intrinsic incentives and rewards’. The present research findings support such a theoretical proposition and provide a robust and comprehensive structure of incentives and rewards. The loadings of rewards and incentives measurements onto two factors improve the overall understanding of the structure of this variable and are consistent with previous theoretical work.

Finally, our survey into the HRM-performance research shows that studies in this topic are conducted in different shapes. Some of them have examined the relationship directly, whilst others have considered it indirectly. Researchers have also dealt with HR practices individually, whilst others have dealt with them as bundles of practices. Noticeably—and regardless of the approach used—this research review indicates that there is no agreement amongst researchers concerning what HRM practices should be or on the number of practices that can enhance organisational performance (Dyer and Reeves, 1995; Becker and Gerhart, 1996; Wright and Gardner, 2003; Beltran-Martin *et al.*, 2008; Guest, 2011). Even if researchers employ the same practices, the underlying meaning of these practices can be different from one study to another (Wood and Albanese, 1995; Dyer and Reeves, 1995; Becker and Gerhart, 1996; Guest, 1997). HRM researchers have only agreed that such practices will lead to better performance in organisations. As a result, this has led to a plea by some authors for a specific theory on HRM in the first place (Paauwe and Boselie, 2009; Guest, 2011). As per the case with HR practices, there is no consensus amongst researchers on the measurement of organisational performance. It remains an imprecise and loosely defined construct—not only in the field of HRM, but in other fields as well (Rogers and Wright, 1998). Additionally, when it comes to the link between HRM and organisational performance, there is no theoretical consensus amongst researchers regarding the way or the mechanism through which HR practices could best impact organisational performance, and scarce attention has been paid to this issue (Wright and Gardner, 2003).

We therefore conclude from this research review that the theoretical aspects in regard to the HRM-performance link is one of the most important gaps, which therefore needs additional efforts and work to build-up a strong and compelling theory on this relationship; otherwise, the progress of the HRM-performance relationship would be impractical. We raise our voices with those who have called for a strong and clear theory on HRM-performance relationship to improve the link and produce better, consistent and reliable results in the future.

7.3.2 Managerial Implications

The current research has also numerous applied managerial implications for organisations:

First, financial firms operating in the country of Jordan that adopt some good HR practices can reduce employee turnover rate and generate better financial returns. Such practices include careful recruitment and selection, formal training methods of employees, and the availability of internal career opportunities. This research indicates that, if an extensive formal training is established and given to the employees within companies, a lower percentage of employees would leave the company every year. Likewise, the organisation that promotes from within and sets policies to recruit internally rather than externally would experience lower employee turnover level. Additionally, the implementation of more careful recruitment and selection plans based on good quality qualifications and personal characteristics also leads to a lower employee turnover rate which companies suffer annually.

Second, companies operating in the financial industry in Jordan should be aware that training is very important practice for the success of their companies. Our findings suggest that training would always have a strong positive impact on all performance indicators—either subjective or objective. Training positively impacts on financial performance. The results showed that that firms' one unit increase in training could lead to around three units increase in returns. Thus, organisations and HR directors in particular could establish a formal training system for the benefit of employees. Our

results clearly indicate that formal/informal training (formal instructions within the company, training provided by a third party but tailored to company needs, and induction into a group by socialisation and imitation) would yield greater financial returns to the companies. Training is broadly classified as either firm-specific or general-purpose, whereas general purpose skills (such as the operation of PCs, for example) are widely applicable, and firm-specific skills (a particular way of record keeping, for instance) are unique to the firm and may also be costly to impart. Accordingly, firms are often hesitant to invest in expensive training programmes if they are not certain of employees' intentions, for when employees leave, those trained in general purpose skills become useful to rivals, and those trained in firm-specific skills result in a loss of training costs. This dilemma can be partly over by creating an atmosphere of trust with the employees.

Third, our findings provide important implications for the subject of objective and subjective performance. Top executives in organisations in the Jordanian context (or similar contexts) and future HRM researchers should be aware that HR directors in organisations may not have a clear, precise, and comprehensive idea of the actual financial performance of their companies, comparing with their rivals. Importantly, executives could establish specific training programmes or courses to improve and develop the overall understanding and knowledge of HR directors on the issues of financial performance of their companies and their level of competitiveness with their close rivals. Based on our results and comparisons, we would agree with some researchers who argue that it would be more rewarding for HRM researchers to use multi-dimensional measures for organisational performance as these measures should include some objective measures to reduce the probability of common method variance (Wall and Wood, 2005) and thus avoid misleading normative and descriptive theory building (Lumpkin and Dess, 1996). Such an argument is strengthened by the results of our hypotheses on HR practices and actual and perceived organisational performance. Although the use of subjective performance measures is widespread in organisational studies today and has been justified in few works, but conducting research in regard to the HRM-performance link could always consider some objective measures of financial performance in order to obtain more truthful results.

Finally, the empirical results of this research suggest that HR directors in the financial industry in Jordan could pay attention to the fact that considerable rewards can be reaped by effectively merging HR functions with strategic planning process. HR directors and professionals should adjust their mind-set and make a significant move from being only working on technical tasks, such as recruitment, selection, compensation, and training. The integration of HRM functions and business strategies can practically provide a broader range of solutions for complex organisational issues. Furthermore, executives in organisations should be aware that HRM-organisational strategy nexus can ensure that all the human, technical and financial resources are given identical deliberation in terms setting and implementing organisational objectives. Based on our findings, we recommend that HR directors should be treated as strategic partners in their organisations as the involvement of HR directors in the overall strategic management process impacts positively on financial performance. Our results showed that firms one standard deviation higher than the average on strategic HR involvement can yield 2.71 higher on ROA and 3.87 higher on ROE. Such results support that argument that the HR and strategy integration can become a main source of obtaining a sustainable competitive advantage for organisations.

7.3.3 Methodological Implications

This research highlights some important methodological implications that could help to produce more accurate results in the future in HRM-performance research:

First, for researchers who wish to investigate the indirect relationship between HRM and organisational performance by testing for different mediating variables to unlock the black box, it is recognised that scholars could go further rather than only testing the existence of mediating variables by using the three-step analysis approach. As we noted in the analysis part, this kind of technique can only allow us to informally judge the result or the mediation effects as the conditions of the statistical steps in this approach constrain the process of the mediation analysis. If we were to rely solely on the three-step analysis approach, we would have concluded that employee turnover partially mediates the relationship between training and ROA. Thus, we recommend future researchers to use Sobel's test, in addition to the three-step analysis approach,

by which mediation can be formally assessed in terms of whether it is full, partial or completely lacking mediation. Additionally, Sobel test helps researchers to investigate the indirect effects of the independent variables, regardless of the significance of their total effects on the outcome.

Second, previous studies have investigated the strategic HR involvement issue by examining the 'external fit'—in statistical terms—between HRM and the organisational business strategy as opposed to examining the role of HR directors in the strategic involvement process and its impact on the overall performance of the companies. The conventional approach, although a useful technique, is described as being complicated to understand, making the practical implementation and the theoretical development of issues problematic (Hutchinson *et al*., 2001; Wright *et al*., 2003; Gerhart *et al*., 2006; Guest, 2011). Guest (2011), in particular, argues that, by raising the bar in terms of the complexity of research methods and the statistical analysis used in HRM-performance research, a growing number of HRM researchers may feel excluded from the field. He has suggested that, by being simple—especially in the issue of the integration between HR functions and business and corporate strategies—future studies would help HR directors and professionals to easily implement innovative management practices within the workplace.

Finally, the empirical work carried out in the context of HRM-performance, which has proved positive relationships in this research stream, favours use of subjective measures of performance. The literature shows that most HRM researchers have employed subjective measures with the aim of assessing financial performance in their studies as they deem the validity of such measures to be adequate (Razouk, 2011). Furthermore, relying on scarce and limited justifications available in the literature for subjectively measuring the financial performance, studies conducted in the HRM-performance link, mainly in the UK and Europe, have almost completely avoided using objective measures of financial performance. In fact, this is a very important issue and it has to be discovered in-depth to get more truthful and accurate results in the future. In the present research, we go beyond just correlating both measures of financial performance. Instead, we carry on with the full statistical analysis of HR practices with both measures of financial performance to investigate and compare the

impacts of HR practices. We employ the same financial measures, subjectively and objectively, and link them with the same HR practices in the same industry at the same time, and also compare the results with the previous empirical work trying to reach at definite conclusions in this debate. Regression analysis has completely and separately been conducted for both measures of performance. Comparing the results of both hypotheses, it can be noticed from the results of the analysis that HR practices could much better and stronger impact perceived financial performance than the actual financial performance measured by ROA and ROE. With firm size and firm age controlled, the results show that HR practices explain a strong significant incremental level of variance in R^2 beyond what the controls explain in perceived financial performance ($\Delta R^2 = .72$, F for ΔR^2 43.85, $p < .001$), whilst the same practices explain much less significant incremental level of variance beyond what the controls explain in ROA ($\Delta R^2 = .38$, F for ΔR^2 10.06, $p < .001$) and in ROE ($\Delta R^2 = .25$, F for $\Delta R^2 = 4.94$, $p < .001$). Additionally, comparing the individual contributions of HR practices, training was as the only HR practice which significantly affected the actual financial performance, whilst in the second hypothesis, on the other hand, three HR practices (training, internal career opportunities, and extrinsic incentives and rewards) are significantly related to perceived financial performance. This is a major finding and insight which should be of interest to future academic researchers who can explore various aspects of it further in their research by following such approach.

7.3.4 Research Contributions

This research contributes to our understating on the HRM-performance debate in the following ways:

Firstly, the extensive review of work in the area of SHRM that we conducted concluded that there is a gap in HRM-performance link, both in terms of theoretical framework and applied research, and the mechanism to link the two. Our methodology applied in our empirical work and the detailed questionnaire appended with this work shows the way in which work in this direction can be conducted. Some of our empirical results leading to contribution to theoretical debate are pointed out in the following paragraphs.

Secondly, most previous works in this field have been conducted in the context of developed countries, such as the US and the UK. As a result, HRM researchers have commonly argued that it is still difficult to draw generalised conclusions from these results (Beardwell *et al*., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and that there is a need for further investigations in different contexts (Ericksen and Dyer, 2005; Wright *et al*., 2005; Chand and Katou, 2007). Responding to this call, this study has been conducted in a non-Western context and is first of its kind for the country of Jordan, the importance of which has been previously highlighted. The methodology shown in this study should pave the way for similar studies of this nature in the non-Western context.

Thirdly, building on the existing works in the field, this work contributes to the research stream by providing evidence on the value-added SHRM through the effects of some of the HR practices on organisational performance indicators. Our work proves the fact that at least some of the HR practices (such as training) have a positive effect on financial performance and that most HR practices can contribute to a lower employee turnover rate.

Fourthly, despite the large number of HRM-performance studies conducted in the last two decades, we have not witnessed any empirical work in this research stream that has tried to prove the positive associations between subjective and objective measures of financial performance. Accordingly, the current research aims to fill this gap by conducting an in-depth analysis of HR practices in the country of Jordan by employing and comparing both subjective and objective indicators of financial performance in their relations with HR practices. This research has employed both subjective and objective financial performance measures to test the validity of the stated hypotheses. We conclude from our applied work that it pays to use *actual* objective indicators of financial performance rather than merely subjective indicators. Such findings contribute to our understanding and cast some doubts on the relationship between the perceived and actual measures of financial performance as it has been discussed and supported in the past. These findings may also make the topic under investigation more debatable than at any time before. Although there is very little available evidence in

the strategic management literature to validate the use of subjective measures of financial performance, the majority of HRM-performance empirical work has preferred to use these measures as they are consider appropriate and can reflect the actual measures of performance. Our results would strongly advise against relying solely on HR directors, or similar respondents, to gather data on the performance of companies. Instead, we suggest the inclusion of some objective measures of performance in order to reach a definite conclusion in this debate.

Fifthly, given the debate on the subject of HR bundles or the complementary thesis, this research has examined the effectiveness of both cases—individual practices and practices as complementarities on organisational performance. Regardless of what is being debated in the literature on the merit of one or either, our analysis does not suggest that HR practices, as a bundle, do impact on organisational performance better than individual practices.

Sixthly, with regard to the core aspects of SHRM, this research is the first to answer the call of HRM researchers by linking the strategic HR involvement and HR devolvement of SHRM from the perspective of HR directors with objective indicators of financial performance. Our results suggest that planning and implementing HR issues based on the overall strategic direction of the company leads to greater financial returns to the companies measured by ROA and ROE. Furthermore, this research has provided evidence on value-added SHRM through the involvement of HR function within the organisation's key strategies in a totally different environment.

Finally, the findings of this research add to the notably limited research into HRM practices and the attitudes of HR directors. Our results add weight to past findings in Western countries, thus supporting the notion that the role of HR director is changing toward a more strategic role, albeit gradually. It is our hope that these findings would add to the growing body of research in relation to the attitudes and practices of HR directors, as well as their inputs to strategic HRM practices within their respective organisations. Moreover, the present work was undertaken into the unique culture and context of the country of Jordan where, previously, almost no published research into the role of HR director existed.

7.3.5 Research Limitations

Despite the contributions of the current research, we acknowledge various limitations as being inherent. This research is conducted with regard to one sector (financial) only, and although the whole population of firms was very nearly covered, the sample size could have been bigger and more diverse. Future researchers could conduct such a study with larger and more diverse sample. Present research employs cross-sectional design. Although we have argued that strategic HRM practices should lead to stronger organisational performance, cross-sectional design does not allow us to rule out the possibility of reverse causation. Future researchers should take into account the longitudinal design as it would help to strengthen the reverse causation possibility and overcome time-lag effects of SHRM on organisational performance. Longitudinal data on SHRM and organisational performance are required to conclusively and decisively replicate such findings represented here, although such data are costly to obtain and are as yet unavailable in many cases (Huselid, 1995). Finally, SHRM data was collected from single respondent from the targeted companies where common variance method could have affected the observed relationship between SHRM and organisational performance. Therefore, we encourage future researchers to utilise multiple respondents rather than single respondents in order to get more truthful, accurate, and thus valuable results.

7.3.6 Future Research Directions

In addition to the future research recommendations mentioned in the limitations section, the following section provides some additional directions for researchers:

First, this research examines the impact of bundles or the internal fit amongst HR practices on organisational performance. Although our findings failed to support the configurational theorists, the argument still has to be fully theoretically derived and empirically tested in future research, since a number of HRM researchers believe that these kind of ‘powerful combinations’ resulting from the internal fit amongst HR practices could positively affect organisational performance.

Second, we recommend that future researchers capture performance consequences of SHRM practices at varied organisational levels. For instance, organisational and market-related outcomes could be taken into consideration in future research, in addition to the other outcomes. Researchers could employ multiple measures of performance to cover the multiple goals of HRM and different parties that have been involved inside or outside the organisation.

Third, with regard to the role of HR director, future research should certainly study the role of HR director in organisational performance. This research is the first to prove that the strategic HR involvement of HR directors is positively related to financial performance and can help achieve great financial returns. Such results should support HR directors in their quest to obtain greater status and control in their companies. Additionally, although we have not found significant effects of HR devolvement on performance, the next generation of SHRM studies should consider HR devolvement and accordingly study this issue in different contexts as some HRM researchers consider it as a very important step in the SHRM implementation process.

Fourth, we stress the issue of HRM theory as one of most important gaps in this research stream; there is no consensus as yet concerning what the specific HR practices could improve organisational performance. Furthermore, even if researchers utilise the same HR practices, the underlying meaning of the practice can be totally different. Hence, we reinforce the call for a specific theory on HRM. Researchers and practitioners should retain a focus on the basic and as yet unresolved question of what mixture of HR practices are most likely to have the greatest impact on organisational performance. We recommend future HRM researchers to put much more efforts on the theoretical aspect of HRM theory development, and accordingly identify a specific effective group of HR practices using the same meanings underlying these practices in order to successfully establish the HRM-performance link and achieve a great progress in this research debate. Likewise, researchers must also direct significant efforts to identifying accurate and specific measures for organisational performance.

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Appendices

Appendix – A = The Questionnaire

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Tel. 0096279-6633969- Amman

Dear HR Director,

I am writing this letter to ask for your help with my PhD studies in Business Management which I am at present conducting at Brunel University in the UK. My research topic concerns the impact of strategic human resource management on organisational performance.

I would be very grateful if you could please complete the attached questionnaire on Human Resource Management Practices. I am aware that your time is extremely valuable. In return for your courtesy, I will be very happy to provide you with the summary of my findings.

I undertake to maintain complete confidentiality and anonymity. Feel free to contact me if you have any inquiries.

Yours sincerely,
Tamer Darwish

SECTION A: BASIC INFORMATION

(1) *Please tick as appropriate.*

(a) Gender: Male _____ Female _____

(b) Age group: 18-29 _____ 30-39 _____ 40-49 _____ 50-59 _____
60 or over _____

(c) Education: Some college_____ Bachelor_____ Master Degree_____ PhD _____

(d) Experience: 1 -4 years _____ 5 –14 years _____ 15 -24 years _____
25 – 34 years ____35 or more years _____

(2) Please confirm the following.

(a) Name of the company _____

(b) Year established _____

(c) Total employees _____

(d) What is the principle product or service generated by your company?

_____

(e**)** What other products or services are generated? *Please list up to three.*

_____

_____

_____

(f) To which of the following areas is your principle product supplied? *Please tick as appropriate.*

(a) Local _____ (b) Arab Countries _____ (c) Europe _____
(d) US/Canada _____ (e) SE Asia _____ (f) Others _____

(3) Which of the following best describes the way your company is structured? *Please tick one.*

(a) By functional area (marketing, finance, etc.) _____

(b) Byproduct/service group _____ (c) By geographical area _____
(d) Mixed Structure_____ (e) Others, please specify _____

(4) Among the following business objectives, rank them according to their importance in the company:

	Not important				Very important
(a) Growth of total sales & market share...	1	2	3	4	5
(b) Profitability……	1	2	3	4	5
(c) Maximise the share price ……..	1	2	3	4	5
(d) Maintain or improve the company's reputation within the industry …….....	1	2	3	4	5

(e) Others, please specify _____

_____

(5) Among the following business strategies employed by your company, rank them according to their importance in the company:

	Not important				Very important
(a) Continuous innovation of new and improved products...	1	2	3	4	5
(b) Continuous investment in traditional products ……	1	2	3	4	5
(c) Sophisticated advertising and promotion ……	1	2	3	4	5
(d) Selling standardised products at highly competitive prices	1	2	3	4	5
(e) Use of joint ventures and cooperative arrangements ……	1	2	3	4	5

(f) Others, please specify _____

_____

(6) What are the core capabilities on which the competitive advantage of your company is based? *Please write one or two only.* _____

_____

_____

(7) How many different chief executive officers (CEO) have served the company over the last 10 years? *Please tick.*

1 ____ 2 ____ 3 ____ 4 ____ 5 ____ More than 5 ____

(8) On average, what percentage of your total employees leave the company voluntarily each year? *Please tick the appropriate.*

(a) 1 – 3 % ____ (b) 4 – 6 % ____ (c) 7 – 9 % ____ (d) 10 – 12 % ____

(e)13 - 16% (f) 17 - 20 % ____ (g) More than 20% ____

SECTION B: ROLE OF HR DIRECTOR

(1) What activities of the HR Director are of greatest strategic significant to the company? *Please tick the appropriate number on the scale.*

	Not significant				Very significant
(a) Headhunting (searching skilled employees)….....	1	2	3	4	5
(b) Contribute to planning and implementing the business and corporate strategies.....	1	2	3	4	5
(c) Contribute to succession planning.....	1	2	3	4	5

(d) Organising training programmes……..... 1 2 3 4 5
(e) Planning career paths for management development..1 2 3 4 5
(f) Job evaluation……..... 1 2 3 4 5
(g) Monitoring and assessing employee
Performance..... 1 2 3 4 5
(h) Advising on organisational design…..…..... 1 2 3 4 5
(i) Ensuring compliance with equal
opportunities legislation……..... 1 2 3 4 5

(2) How has the role of HR Director changed over the last 5 - 10 years? *Please tick as appropriate.*

(a) The HR Director has become more influential in strategic decision making ____
(b) Review of training needs _____
(c) The level of commitment which can be expected from employees has become lower _____
(d) The training budget carries a higher priority _____
(e) Frequent job rotation has become more common for middle mangers _____

(3) Would you please rate the representation of HR director on the board meetings? *Please tick one.*

(a) Attends all board meetings _____
(b) Attends by invitation when HR matters are discussed _____
(c) Does not attend but supplies reports for discussion by the board _____
(d) Implements policies determined by the board, but does not participate in policy-making _____

(4) How important is the delegation of the following to line / junior managers? *Please tick as appropriate.*

	Not important				**Very Important**
(a) Day to day HR work ……	1	2	3	4	5
(b) HR strategic decisions……	1	2	3	4	5

SECTION C: RECRUITMENT, TRAINING AND RETENTION

RECRUITMENT AND SELECTION

In appointing a candidate to a middle grade in *general management,* how do you rate the following? (Assume either an internal candidate or an external candidate depending on which is the most usual). *Please tick the appropriate number on the scale.*

	Not applicable				**Always applicable**
(1) Qualifications:					
(a) School and universities qualifications……..	1	2	3	4	5
(b) Professionals qualifications other than (a)…	1	2	3	4	5

(c) Previous experience of a similar job…… 1 2 3 4 5
(d) A wide range of work experience……. 1 2 3 4 5
(e) Work experience in other countries…….. 1 2 3 4 5
(f) Command of languages…… 1 2 3 4 5

(2) Personal characteristics:

(a) Willingness to travel……..... 1 2 3 4 5
(b) Total devotion to task……. 1 2 3 4 5
(c) Self motivation……..... 1 2 3 4 5
(d) Potential to grow with the job……..... 1 2 3 4 5
(e) Independent judgment ……..... 1 2 3 4 5
(f) Commitment to the company……..... 1 2 3 4 5

TRAINING

(1) What are the most applicable methods of training new employee in junior management? *Please tick the appropriate number on the scale.*

	Not applicable				**Always applicable**
(a) Formal instructions within the company…….....	1	2	3	4	5
(b) Training provided by a third party organisation but tailored to company needs…….....	1	2	3	4	5
(c) Induction into a group by socialisation and imitation..	1	2	3	4	5
(d) Learning by doing on your own…….....	1	2	3	4	5

INTERNAL OPPORTUNITIES

(1) Please indicate the main criteria of individual or group performance used in assessing cases for promotion. *Please tick the appropriate number on the scale.*

	Not applicable				**Always applicable**
(a) Contribution to profit……	1	2	3	4	5
(b) Value of output (independent of profit margin)	1	2	3	4	5
(c) Quality of output……	1	2	3	4	5
(d) Keeping within budget……...	1	2	3	4	5
(e) Effort (independent of final result)…….	1	2	3	4	5
(f) Overall professionalism……..	1	2	3	4	5

RETENTION

(1) On average, how many years of service are required before a manager reaches the board level? *Please tick as appropriate.*

(a) 1 – 3—— (b) 4 – 6—— (c) 7 – 9—— (d) 10 – 12 —— (e) More than 12 ——

(2) Please indicate your views on managing senior executive succession (replacement). *Please tick the appropriate number on the scale.*

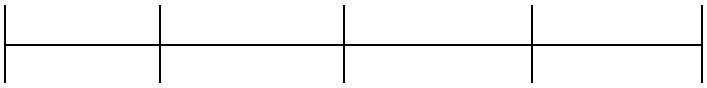
	Disagree				Agree
(a) External appointment are, in general, desirable because they bring in new blood……	1	2	3	4	5
(b) In our case external appointments are undesirable because our company is so large that outsiders cannot understand its complexities……	1	2	3	4	5
(c) competition between internal candidates should be avoided by 'preparing' one person well in advance……	1	2	3	4	5
(d) Non-executive directors should play a dominant role in selecting executive successors……	1	2	3	4	5

SECTION D: APPRAISALS, AND INCENTIVES AND REWARDS

PERFORMANCE APPRAISALS

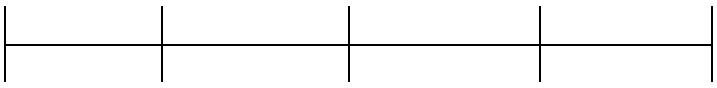
(1) How frequently/regularly appraisals are conducted? *Please tick the appropriate number on a scale from 1 to 5 where 1 is not frequent/regular and 5 is very frequent/regular.*

1 2 3 4 5



(2) After the appraisal, how fast is the feedback given to employees? *Please tick the appropriate number on a scale from 1 to 5 where 1 is slow and 5 is fast.*

1 2 3 4 5



INCENTIVES AND REWARDS

(1) How would you explain salary differentials in your company to an employee? *Please tick the appropriate number on the scale.*

	Not important				Very Important
(a) They simply reflect the external market conditions…….....	1	2	3	4	5

(b) They reflect the firm's own evaluation of the jobs people perform..... 1 2 3 4 5

(c) They are fair in the context of the company's system of values..... 1 2 3 4 5

(d) Management must be free to reward people in whatever way best serves the company's interests..1 2 3 4 5

(e) Personal perception takes role..... 1 2 3 4 5

(2) How important are the following rewards in retaining the key staff? *Please tick the appropriate number.*

	Not important				**Very Important**
(a) Basic pay above the industry level…….....	1	2	3	4	5
(b) Basic pay above the local level in the area…….....	1	2	3	4	5
(c) Valuable fringe benefits…….....	1	2	3	4	5
(d) The opportunity to earn large bonuses through greater efforts….....	1	2	3	4	5
(e) Annual salary increments above the rate of inflation .1		2	3	4	5
(f) Better career prospects than other firms in the same industry….....	1	2	3	4	5

(3) What do you consider to be the most important social and psychological benefits to a manager working for your company? *Please tick the appropriate number.*

	Not important				**Very Important**
(a) Interesting and challenging work……	1	2	3	4	5
(b) Friendly and supportive colleagues……	1	2	3	4	5
(c) Job security……	1	2	3	4	5
(d) The prestige of working for one of the					
(e) top firms in the industry.....	1	2	3	4	5

SECTION E: HRM PRACTICES AND FIRM PERFORMANCE

(1) In your opinion, does a strong link between HRM and profitability exist? *Please tick as appropriate*

(a) Yes, a strong link exists _____ (b) Yes, there is a link _____
(c) Yes, there is a weak link _____ (d)No, there is no link _____
(e) Others, please explain _____

_____

(2) In your opinion, what are the **3** best HRM practices that can help improve firm's performance in terms of profitability? *Please order them from 1 to 3 in terms of importance* (1 = first best, 2 = second best, 3 = third best).

(a) Efficient recruitment and selection ____ (b) Good training ____
(c) Careful performance appraisals ____ (d) Promotion opportunities ____
(e) Clear job description ____ (f) Job security ____
(g) Participation in decision making ____ (h) Excellent incentives and reward ____

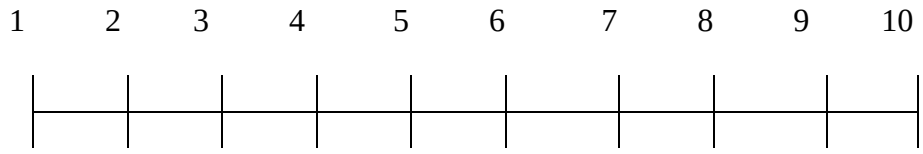
(3) Do you generally benchmark (compare) your company with any of your competitors? Yes / No

(4) How influential are the following in your business operations? *Please tick the appropriate number on the scale.*

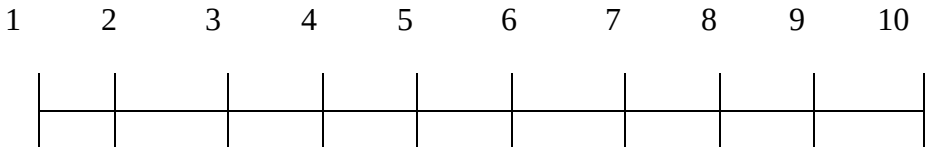
	Not influential				**Very influential**
(a) Macroeconomic environment…….....	1	2	3	4	5
(b) Government measures…….	1	2	3	4	5
(c) Technological environment….....	1	2	3	4	5
(d) Political climate……..	1	2	3	4	5
(e) Cultural environment……	1	2	3	4	5

(5) Compared to your rivals (competitors) in the same industry, how would you rate the following in terms of your company performance on a 1 to 10 scale? *Please circle the appropriate number on the following scales. (1= Lowest performing / 10= Highest performing)*

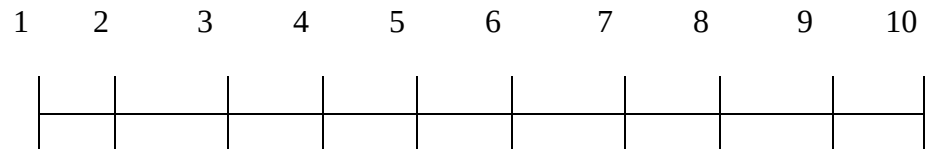
(a) HRM Policies



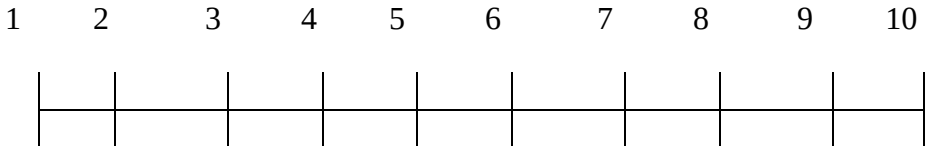
(b) Holding Market Share



(c) Sales Revenue



(d) Profitability (After Tax)



THANK YOU FOR YOUR KIND COOPERATION