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Does Strategic HR Involvement and Devolvement Enhance Organisational Performance? Evidence from Jordan

Tamer K. Darwish

Satwinder Singh

Abstract:

Purpose: The purpose of this paper is to test empirically the relationship between the strategic involvement and the devolvement of human resource functions with organisational performance.
Design/Methodology/Approach: This paper is based on the primary data collected from the population of financial firms based in Jordan. The methodology adopted for the purpose of data analysis includes the use of basic statistics, zero-order correlations, confirmatory factor analysis and hierarchical regressions.
Findings: The results provide strong support for the hypothesis that the involvement of human resource functions into the business and corporate strategy reduces employee turnover rate and enhances financial performance. The analysis does not support the second hypothesis that empowering day-to-day human resource functions to line managers impacts negatively on employee turnover and positively on financial performance.
Practical Implications: Our results imply that financial performance can be enhanced and employee turnover rate decreased by involving human resource directors in the overall strategic decision-making process of companies. However, our results also imply that the devolvement of routine human resource issues to line managers is neither positively related to the financial performance of the companies nor negatively related to employee turnover. This raises doubts as to whether, after having involved human resource functions into the strategic affairs of the company, they are empowered enough to make a positive impact.
Originality/Value: This is one of few papers conducted on this topic in a non-Western environment, and the first of its kind for the country of Jordan. This paper contributes to the field through its approach to measuring and testing strategic human resource management theory. The paper also successfully links the core aspects of strategic human resource management with objective indicators of financial performance of the companies.

Keywords: Strategic human resource involvement, human resource devolvement, organisational performance, confirmatory factor analysis, hierarchical regressions.

Paper type: Research paper.

1. Introduction

Strategic Human Resource Management (SHRM) has attracted a great deal of research attention owing to its impact on the functioning of organisations. It is argued that involving HR directors in the strategic plans of an organisation and empowering line managers with greater responsibility in terms of day-to-day HR affairs can reduce employee turnover and improve organisational performance[1] (see, for example, Budhwar & Sparrow, 1997; Budhwar, 2000; Sullivan, 2003; Andersen *et al*., 2007; Karami *et al*., 2008; Singh *et al*., 2012a). *Prima facie*, this argument is plausible; however, not much empirical evidence exists to support such assertions. This article is an attempt to fill this gap with the help of primary data collected from the population of financial firms in the country of Jordan. The study is important and timely owing to the fact that not much research has been carried out in the context of small countries. Jordan is a small, relatively developed and stable Middle Eastern country with a significant industrial and commercial base. If strategic HR aspects derived in the West are unable to generate significant performance improvements in such a context, arguably this could cast doubt on the broader relevance of such aspects across much of the developing world.

In this paper, we address the following key question: What measurable impact does the effective process of strategic HR involvement and HR devolvement have on employee turnover and financial performance? The underlying hypotheses are that, if it is true that strategic HR involvement and HR empowerment are effective instruments, then the outcome of the implementation of such instruments should show up in reduced employee turnover and, perhaps more importantly, in the enhanced financial performance of organisations.

The paper is organised as follows: Section II highlights the SHRM in the context of Jordan; Section III summarises the literature on strategic HR involvement and HR devolvement; Section IV describes the data, variables and methodology applied in the study; this is followed by an analysis of results in Section V; discussion and conclusions are considered in Section VI.

[1] The words ‘devolvement’ and ‘empowerment’ are used interchangeably; so are words ‘firm’ and ‘organisation’.

2. SHRM in the Context of Jordan

During recent years, Jordan has opened its markets to world trade and investment, and is fast becoming a credible player in global commerce. However, given its limited natural resources, the onus is falling on the services sector, which contributes to over 75% to the country's national income (World Factbook, 2009). Importantly, the financial sector occupies a prominent position within the services. It is recognised that the services sector had been largely insulated from the recent financial crisis owing to its, as yet, somewhat limited exposure to overseas capital markets. This, however, is changing fast, as became clearly evident during the course of the research for this paper, during which the authors spoke to over 100 HR directors responsible for financial issues. It was discovered that HR directors have been engaged in several HR initiatives with the aim of enhancing organisational performance to make their firms competitive. Several HR directors relayed to authors their firms' evolving belief that employees are key resources who can enable businesses to gain competitive advantage (academic work in this arena can be found in Pfeffer, 1994, 1998). Allied to the realisation of these 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, however measured (Huselid, 1995; MacDuffie 1995; Delery & Doty, 1996; Darwish *et al*., 2013). Within the organisation, the *implementers* of SHRM changes are primarily the HR directors, the focus of whom is now shifting gradually from routine functions to strategic aspects. In an earlier work, this preposition was tested empirically, and found to be true in the case of financial firms under investigation in this paper (see Singh *et al*., 2012a). Markedly, this work is an extension of the previous work on the role of HR directors (ibid.) conducted with the help of the same data set.

Throughout this paper, we take a closer look at the issues associated with strategic HR involvement and HR devolvement in the financial enterprises in the wake of these firms' attempts to enhance their organisational performance. The paper also responds to the call of several HRM researchers who have emphasised the necessity of investigations into HRM issues from different angles (see Casson *et al*., 1998; Wright *et al*., 2005b; Chand & Katou, 2007). Thus far, almost all the studies on this topic have been conducted with regard to the industrial sector in the Western context—particularly in the US and the UK. This work conducted in a non-Western context and in an all-important financial sector in Jordan adds value to the literature. A review of research work in the context of Jordan showed that very few studies on HRM issues exist, and none on the theme investigated in this paper (some related studies include that of Al-Husan *et al*., 2009; Mohammad, 2011; Singh *et al*., 2012a; and Darwish *et al*., 2013).

3. Theoretical Background and Literature Reference

Basics of Strategic HR Involvement and HR Devolvement

During the course of the last two decades, significant contributions have been documented in the literature in terms of dealing with issues related to the management of people. Researchers have put forward various arguments to support the preposition that an effective link exists between how people are treated within the organisation and how well the organisation performs. In SHRM literature, two aspects stand out: the integration or the involvement of HR functions into the business and corporate strategy; and the devolvement or empowerment of HR practices execution to line managers. The drivers of the first of these two aspects are the HR directors, who, for example, could be involved in the overall vision and business and corporate strategies of a firm by sitting on the Board and other strategic meetings of importance within the organisation. Line managers could hold responsibilities for routine HR functions, such as recruitment, selection, appraisals and training. Thus, by involving line managers, empowering them with responsibilities and giving them a sense of control, organisational effectiveness can be improved. HR directors can also play an important role in implementing and supporting the involvement and devolvement process within organisations which, in turn, could reflect positively on organisational success (Budhwar, 2000; Singh *et al*., 2012a).

In this context, researchers have consistently attempted to understand the mechanisms by which SHRM impacts on organisational performance. Literature shows that researchers have mostly used one of two perspectives to understand and investigate the HRM–performance link: the systems perspective or the strategic perspective (Singh *et al.*, 2012b). The systems perspective studies the relationship between specific HRM practices such as training, recruitment, or reward system, and employee or organisational performance. However, the debate on the HRM-performance link has now shifted towards a more integrated management approach of how the entire set of HR practices and policies may contribute to the competitive advantage of the organisation and lead to a better performance (Arthur, 1994; Huselid, 1995; Delery & Doty, 1996; Singh *et al*., 2012b). Such a transition reflects the importance of HRM in gaining competitive advantage and achieving organisational performance in present-day enterprises. With regard to the strategic perspective in the HRM-performance link, it has taken on different meanings in the literature. Some researchers have focused on the external or vertical fit between various HRM practices and the competitive strategy of the organisation (see, for example, Miles & Snow, 1994). Such an approach would suggest that organisations should align or integrate their HRM practices and policies with their strategic goal, and that these practices and policies should develop employees' skills, knowledge and motivation such that employees behave in ways that are supportive of a particular strategy (Dyer & Reeves, 1995; Delery & Doty, 1996). In the former approach, HR directors can play an important role in aligning HRM with business and corporate strategies. Another approach has adopted a contingent view assuming that the positive impacts of HRM on organisational performance depends on the contextual factors and other circumstances, such as the political and economic systems, industry, and firm size and age (Paauwe & Boselie, 2005). In addition, several researchers have used the resource-based view in an attempt to explain the mechanism by which HRM impacts on performance (see, for example, Wernerfelt, 1984; Wright *et al*., 2001). Such an approach suggests that HRM contributes to a sustained competitive advantage and leads to enhanced organisational performance by leveraging human resources, discretionary efforts, and desired behaviours (Becker & Gerhart, 1996; Singh *et al*., 2012b). Both the systems and the strategic perspectives contribute to the understanding of the relationship between HRM and organisational performance. However, as stated earlier, research evidence so far has only partially verified these effects.

Literature and Measurement Difficulties

The issue of strategic HR involvement and HR devolvement has been explored empirically in a few studies in the literature. For instance, Teece *et al*. (1997) argue that the integration of HRM into organisational strategies results in enhanced competences and makes 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. Authors have also found that HR devolvement helps organisations to solve many problems at the lower level, thus leading to better change management, which subsequently helps to build responsible line managers (Budhwar, 2000). Furthermore, it is argued that a good relationship between the line manager and HR manager can help the latter to realise and better understand the problems within different organisational functions (Sullivan, 2003). Although the positive links between the effective strategic involvement of HR functions and HR empowerment with the organisational performance have been explored, in actual practice, the measurement process is a complex task. As a result, it is not a surprise that, despite several attempts to do so, a fool-proof method remains elusive (see Guest, 1997; Paauwe & Boselie, 2005). Scott (1977, p. 63), in his review of the measures of organisational effectiveness, concludes that, 'after reviewing a good deal of the literature on organisational effectiveness and its determinants, the conclusion has been reached that this topic is one about which we know less and less'. Part of the complications arises from the fact that there is no general consensus on the way in which organisational performance can be defined. Conceptually, organisational performance may be been defined as the comparison of the value produced by a company with the value owners expected to receive from the company (Alchian & Demsetz, 1972). Performance can also be defined in terms of HR-related outcomes, such as turnover, absenteeism, job satisfaction, commitment, and others, or even organisational outcomes, including productivity, quality, service, efficiencies, customer satisfaction and others (Dyer & Reeves, 1995). Furthermore, the term may also be described in terms of financial indicators (profits, sales, return on assets) or capital market outcomes (market share, Tobin's *q*, stock price, and growth). Importantly, in the strategy literature, the focal point of attention on this construct has been almost completely on financial measures of performance (Rowe *et al*., 1995).

Given such complications, it is not surprising that few studies have been conducted and yielded clear-cut results on the impacts of strategic HR involvement and HR devolvement on the financial performance of organisations. Mainly, the research had been concerned with evaluating the *level* of strategic HR integration and HR devolvement that HR directors play in organisations (Budhwar & Sparrow, 1997; Budhwar, 2000; Andersen *et al*., 2007).

Approach of the Present Study

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 (see 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. In the same vein, but in a different approach, some authors (Budhwar, 2000; Andersen *et al*., 2007) urge researchers *first* to evaluate the level of strategic HR involvement and devolvement that HR directors are playing in organisations, *and then* to investigate their impacts on bottom-line indicators, such as ROA and other profitability indicators considered; this enables the objective reflection of the performance of the companies.

Following these two steps, we (Singh, Darwish & Andersen, 2012a) have recently evaluated the level of strategic HR involvement and devolvement that HR directors are playing in the same industry targeted in this study. Our results show that the HR director's role is shifting gradually to become more business-oriented and strategic. Having satisfied the first step suggested by researchers, we are now aiming to investigate, in this second step, whether such a strategic shift has an impact on organisational performance.

4. Hypotheses

We propose that the end results of involving HR directors in the overall strategic process of the organisation and devolving the day-to-day routine HR issues to line managers would show up positively through reduced employee turnover and enhanced financial performance[2]. Based on the review of literature, as described above, alongside deductive reasoning, we propose to test the following two related hypotheses:

H1: There is a negative relationship between the issues of strategic HR involvement and HR devolvement and employee turnover; the higher the involvement and empowerment, the lower the employee turnover.

H2: There is a positive relationship between strategic HR involvement and HR devolvement, and financial performance. Higher the involvement and devolvement, higher would be the financial performance.

[2] Although our previous study focused on the dynamics of HR directors' role that we found to be gradually shifting to be more strategic (from being routine), the result could be extended to the role of other directors with different portfolios within the company (e.g., planning, marketing, finance, R&D, production, and others).

The first hypothesis is related to the behavioural (subjective) aspects of organisational performance as we attempt to establish whether there is a relationship between the issue of strategic HR involvement and HR devolvement, and that of employee turnover. In contrast, the second hypothesis takes into consideration the objective aspects of performance, which concerns the financial results of the companies.

5. Methodology

Data Sources

The target population of this study is the financial sector of Jordan. This sector is one of the largest and well-developed services sectors in the country, and is currently witnessing a great deal of deregulation, which is attracting private investment from within the country and overseas. 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. These firms are all listed on the Amman Stock Exchange (ASE). The unit of analysis in this study is the organisation, and the targeted respondents are HR directors. It was decided that all the firms in the population would be approached for the purpose of data collection. Two types of data were required for the study: the first set comprising primary data related to the HRM operations of these firms; the second set relating to their financial operations.

A detailed questionnaire was drafted for the collection of the primary data. The questionnaire instrument included detailed questions on issues such as the role of HR directors, recruitment and selection, training, appraisals, incentives and rewards, corporate culture, and perceived financial performance. All 104 firms were contacted in person, of which 99 agreed to participate in the survey. Questionnaires were delivered by hand and collected in person. Authors distributed the questionnaires in person to HR directors in the targeted companies and in several instances spent time with them clarifying the questions. All these efforts resulted in a very high response rate. Once the data was computerised, cross-checks also revealed data to be consistent and reliable. The matching financial data from the profit and loss accounts and the balance sheets of 99 firms were gathered from the financial statements from ASE. Fortunately, government policies and regulations require all listed companies to report financial data in a consistent manner, which makes inter-firm comparisons meaningful and unbiased.

Construction, Test and Validity of Variables

Strategic HR involvement and HR devolvement:

Strategic HR involvement and HR devolvement largely centre on the role of HR directors. As stated previously, the act of involving HR directors in the overall management process and devolving day-to-day HR functions to line managers have come to be considered as the central aspects of SHRM in present day enterprises. These measures were developed related to the role of HR directors based on existing SHRM literature (see, for example, Budhwar & Sparrow, 1997; Budhwar, 2000; Andersen *et al*., 2007). In our survey instrument, we first asked HR directors about the level of their strategic contribution to their companies. This question comprises three items: HR director's contribution to planning and implementing the business and corporate strategies; whether the HR director had become more influential in the strategic decision-making process; and the level of the representation of the HR director in Board meetings. We then also asked HR directors about the level of the delegation of routine HR work to line managers in order for them (HR directors) to concentrate on strategic issues of long-term importance to the companies. Questions were measured on a Likert scale ranging from 1 'not important' to 5 'very important'. Variables in this study are composite measures. Table 1 shows the items that make up each composite measure (strategic HR involvement and HR devolvement).

In order to ensure the overall validity and the reliability of the variables under consideration, Confirmatory Factor Analysis (CFA) was conducted, which provides three main indicators for assessing the convergent validity in the form of factor loadings, average variance extracted (AVE), and reliability of the construct (Hair *et al*., 2010). The factor loadings should be .5 or higher in order to be considered meaningful. The results in Table 1 show that the factor loadings of each construct indicators are significant, ranging from 0.74 to 0.90, demonstrating a strong association between constructs and their factors. AVE gives information concerning the amount of variance explained by the construct in relation to the variance due to the measurement error; it considers a construct to establish convergent validity if it is at least .50 or higher (Fornell & Larker, 1981). Table 1 shows that AVE values are higher than the threshold value of 0.50, thus demonstrating adequate convergence of the constructs. Finally, reliability is the third indicator that could reflect convergent validity. Although not very high, the results of the inter-item consistency test, as shown in Table 1, indicate that the scales satisfy the reliability criterion as the alpha coefficient of .50 or greater is considered sufficient to draw the conclusion of internal consistency (Nunnally, 1967). Taken together, the results of factor loadings, AVE and reliability tests provide sufficient confirmation of the convergent validity. The square roots of AVE values were also compared with the constructs' correlations from where the results showed that the squared roots of the AVE values were higher than any correlation of the strategic HR involvement and devolvement constructs indicating an acceptable level of discriminant validity (Fornell & Larcker, 1981).

TABLE 1 ABOUT HERE

Outcome Variables:

Employee Turnover: Several studies (see, for example, Arthur, 1994; Huselid, 1995) conducted in regard to the HRM–performance link have taken into consideration employee turnover as a vital outcome and an important indicator of organisational performance. Following such studies, employee turnover rate is measured by a simple and direct question in the questionnaire concerning the percentage of total employees that voluntarily leave the company each year. As shown in Table 2, the mean (3.48) for the turnover rate for our set of firms is approximately between 9% and 10%; the lowest on which they were asked to tick was 1–3%, with the highest more than 20%. Having known that we are dealing with firms operating in the financial industry and competing wildly for skills and talents, such result should not come as too high a rate. The lowest rate of turnover of 1–3% was set following the completion of the initial pilot testing of the questionnaire, which showed this to be a good base class interval to begin the question with.

Financial Performance: Return on Assets (ROA) and Return on Equity (ROE) are two essential outcome variables taken into account in the literature as indicators of firm performance (Snell & Youndt, 1995; Delery & Doty, 1996). Retaining these variables for our study as well, data on these variables was obtained from the ASE database. The study follows the cross-sectional design adopted by a number of other authors (see, for example, Arthur, 1994; MacDuffie, 1995; Wright *et al.*, 1999). The measures of ROA and ROE for this study were the year-end measures for 2007; the survey was also completed in 2008. This type of cross-sectional design is known as post-predictive design. HRM–performance cross-sectional research designs can be conducted using one of four main designs (Wright *et al.*, 2005a), which are: post-predictive designs; retrospective design; contemporaneous design; and predictive design. Wright *et al*. (2005a) reviewed the HRM performance studies and showed that 50 out of 70 studies conducted in HRM performance research have employed the post-predictive design. Wright *et al*. (2005a) have argued that such a design is called post-predictive because it measures HRM practices and policies *after* the performance period, resulting in actually predicting past performance. In an extensive survey of literature that precedes and follows this particular quote, Wright *et al*. (2005a) essentially point out that there are limitations to whatever method the researcher choses to measure HR-performance link. In fact, in their own detailed crafted methodology used in their work, they point out five limitations, two of which are actually quite serious (for more details on this methodology, see Wright *et al*., 2005a). We do not claim that the post-predictive method is the fool-proof method of analysing HR-performance link. Our study is related to the financial sector in Jordan and we were able to match perfectly the financial data for all the sampled firms. We derived the performance measures from this data. It did transpire during the meetings that the HR practices had been fairly stable in the firms from whom data were collected. The general corporate culture of Jordan is such that violent and sudden changes do not occur in the HR side of the things anyway.

Control Variables:

It is essential to include control variables in the study 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 showed that firm size and age are commonly used control variables in the studies on the HRM–performance link, and can cause significant variations in the impacts of HRM on organisational performance. Firm size, in particular, has been found to be an important control variable (Collins & Clark, 2003). With regard to the operationalisation of these variables in present study, firm size and firm age are utilised as control variables measured in natural logs (Kimberly, 1976), where firm size is measured by the number of employees in each company, and firm age is measured by the number of years the company has been in operation.

Statistical Methods

In order to test the hypotheses, the following approaches were adopted. The descriptive analysis of data in Table 2 and Table 3 include means, standard deviation, zero-order correlations, Skewness and Kurtosis. Hierarchical regression analysis is used for the modelling of the data. Prior to conducting the regression analysis, data were screened and tested for the multivariate assumptions.

TABLE 2 ABOUT HERE

6. Results

Descriptive

Table 2 and Table 3 present the results of descriptive statistics. The mean (3.48) for the turnover rate for our set of firms is approximately between 9% and 10%; the lowest on which they were asked to tick was 1–3%; the highest was more than 20%. Considering that we are dealing with financial firms competing fiercely for talent, this should not come as too high a rate.

Table 3 presents the results of zero-order correlations of seven variables under consideration. It is imperative to note, at the very outset, that the relationship between strategic involvement and HR devolvement is highly significant. HR involvement is also significantly related to ROA and ROE. HR devolvement, however, is negatively and significantly related to employee turnover. Understandably, the two financial measures, ROA and ROE, are significantly correlated.

TABLE 3 ABOUT HERE

Test of the First Hypothesis

The first hypothesis concerns the relationship between the core aspects of SHRM represented by strategic HR involvement and HR devolvement, and employee turnover. Table 4 reports the results of hierarchical multiple regression for this hypothesis. In the first step, control variables, firm size and age are entered, followed by strategic HR involvement and HR devolvement in the second step. The value of R^2 for the second model is significant ($R^2 = .62$, $F = 37.99$, $p < .001$) and predictors account for 62% of the variation in employee turnover rate. Moreover, the adjusted R^2 is .60, which indicates the way in which the model could generalise and perfectly reflect the same—or similar—value of R^2. The difference between R^2 and the adjusted R^2 is 2%; the reduction reflects the idea that, if the model was derived from the population rather than a sample, it would account for approximately 2% less variance in employee turnover. In addition to the adjusted R^2, Stein’s equation was used to cross-validate the model. The result of the adjusted R^2 from Stein's method is .59, which is almost identical to that obtained from the regression model. This indicates that the cross-validity of the model is very good. Concerning the independent errors of the model, the value of Durbin-Watson test is 2.1[3].

In the first step, when only the firm size and firm age are included, the coefficient for size turns out to be significant and negative; this is a little counter-intuitive as, with the increase in the size of the firm, the turnover rate would also be expected to increase. This may be explained by the fact that, for financial firms, the incentives to stay with the firm may also go up *pari passu* with the increase in the size of the firm. When the firm is expanding, it may like to retain its experienced staff with greater incentives, which may partly explain the fall in turnover rate. However, the level of significance reduces (from .010 to .161) when additional variables are introduced into the equation. What subsequently becomes significant is the firm age, which is an interesting result, suggesting that the turnover rate is positive and significant for firms as they grow older. With regard to strategic HR involvement, the results show that, as the degree of involvement increases, the rate of employee turnover declines. Furthermore, As the results show, when firm size and firm age are controlled for, significant changes in R^2 over what the controls significantly explain (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), whilst HR devolvement is not (b = -.009, p > .10). Thus, these results provide support for this hypothesis only in the case of HR involvement in its relationship with employee turnover.

TABLE 4 ABOUT HERE

Test of the Second Hypothesis

In this hypothesis, the relationship between strategic HR involvement and HR devolvement was tested with regard to the financial performance, as represented by ROA and ROE. The results of hierarchical multiple regression for this hypothesis are shown in Table 5, where

[3] 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).

control variables are entered in the first step and strategic HR involvement and HR devolvement are entered in the second step. The value of R^2 for ROA model is significant ($R^2 = .33$, $F = 11.49$, $p < .001$), meaning that the predictors account for 33% of the variation in ROA. In contrast, R^2 for ROE also shows a significant level of explanation of the outcome ($R^2 = .16$, $F = 4.53$, $p < .05$), although not as much as the amount explained in the case of ROA. The core aspects of SHRM predict ROA better than ROE. Using Stein's equation, adjusted R^2 values for ROA and ROE are .29 and .12 respectively, which are very close to the adjusted R_2 values. Accordingly, these values indicate that the cross-validity of these models is very good. Concerning the independent errors assumption, the Durbin-Watson test value for ROA and ROE is 2.0 in both cases, which confirms that these models meet 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 variance in R^2 beyond what the controls explained in ROA ($\Delta R^2 = .28$, F for ΔR^2 19.85, $p < .001$) and in ROE ($\Delta R^2 = .15$, F for $\Delta R^2 = 8.62$, $p < .05$), thus providing support for this hypothesis. Moving forward to the individual contribution for each predictor, the results of the regression analysis provide support for strategic HR involvement as it significantly affects ROA ($b = .48$, $p < .001$) and ROE ($b = .42$, $p < .05$). On the other hand, HR devolvement has no significant effect on ROA ($b = .11$, $p > .10$) and ROE ($b = –.014$, $p > .10$). Accordingly, it seems that the alignment between HRM and organisational strategy would improve the financial performance of the companies.

TABLE 5 ABOUT HERE

Extending the Basic Results

Following the suggestions made in the literature (see Husiled, 1995)—that in an applied domain, such as human resource management, it is useful for researchers to move further from conventional tests of statistical significance and state the results in terms of practical significance—the practical significance of the impact of strategic HR involvement on ROA and ROE was assessed by calculating the consequence of a one-standard-deviation increase in HR involvement in organisational strategy on the numerator of each dependent variable. Once this exercise was carried out, we found that, for 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, which constitutes a change of 2.71 in this outcome (.477 × 5.69). In other words, those firms found to be one standard deviation higher than the average in terms of strategic HR involvement are estimated to be 2.71 higher in relation to ROA. As for ROE, in contrast, 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 recognised as being one standard deviation higher than the average on strategic HR involvement are estimated to be 3.87 higher in terms of ROE. Taking into account that these models control for firm size and firm age, the impact of strategic HR involvement on financial performance is both practically and statistically significant; in other words, the results suggest that, greater the alignment or integration between HRM and organisational strategy, greater are the financial returns to the companies.

7. Discussion and Conclusions

This study contributes to our understanding of and insight into the relationship between strategic HR involvement and HR devolvement, and organisational performance. The results provide strong support for the hypothesis that effective strategic HR *involvement* in the working of the company reduces employee turnover rate and enhances financial performance. The results tell us that, when HR directors are involved in the overall strategic process of their companies (for example, contribute to planning and implementing the business and corporate strategies, and joining the Board meetings regularly), employees remain longer within the company, and contributing positively to the financial performance.

The findings of our first hypothesis are consistent with previous works that have established a positive relationship between the core aspects of SHRM and *perceived* indicators of financial performance, such as ROA, ROE and employee turnover (see, for example, Appleby & Mavin, 2000; Richard & Johnson, 2001; Andersen *et al*., 2007; Karami *et al*., 2008). The results of this study are also consistent with the work of Wright *et al*. (1999), who found a positive relationship between strategic HR involvement and organisational effectiveness; moreover, they have pointed out the fact that HR directors greatly value their jobs when they are involved in strategic decision-making.

We did not find support for our hypothesis that empowering line managers with greater power will also lead to reduced employee turnover and enhanced financial performance. This result is not aligned with the findings of various studies, which have established a weak-to-moderate positive relationship between HR empowerment and perceived organisational performance (see, for example, Appleby & Mavin, 2000; Andersen *et al*., 2007). However, it has been pointed out in the literature that, in order for HR practices to be carried out in harmony with broader policy issues, HR managers and professionals should train line managers on HR practices and keep interactions and communications with them open and on-going (Budhwar & Khatri, 2001). Additionally, the reason for not determining a positive link of empowerment on low employee turnover and financial performance could be owing to the fact that the study was conducted during the on-going period of turmoil in the financial world, and HR directors and management were in the process of consolidating the core business decisions by keeping them in the hands of the top few executives. It is probable that, when the study is replicated in normal circumstances, results will differ.

Contributions

This article primarily contributes to the literature by testing SHRM theory in the context of Jordan and its financial industry. This is one of few studies that has been conducted in a non-Western context, and is markedly the first of its kind in the context of the country of Jordan. The study also contributes by focusing on a sector presently very much in the news. Secondly, several researchers have called for an increased integration of HRM in the overall strategic planning process in organisations (Wright *et al*., 1999; Budhwar, 2000; Andersen *et al*., 2007), and accordingly encourage researchers to conduct studies in this context; however, very few applied studies are available that confirm the vital role of HR involvement in the process of development and implementation of business objectives and strategies (Karami *et al*., 2008). This study also contributes to the field of SHRM by linking the core aspects of SHRM with the objective indicators of the financial performance of the companies. Our study confirms that effective strategic HR involvement of HR directors can make a difference in organisations' performance, thus making the HR and strategy nexus a source of competitive advantage. Finally, this article contributes to the field by its approach to measuring and testing SHRM theory. As stated earlier, the previous studies have investigated the strategic HR involvement issue by examining the 'external fit'—in statistical terms—between HRM and 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 (Wright *et al*., 2003; Gerhart *et al*., 2006; Guest, 2011).

Implications

The empirical results of this study have important implications for executives. Our results show that considerable rewards can be reaped by merging HR functions with the overall planning process of the company; this can be done by involving HR directors in the strategic decision-making process in company's Board meetings, and permitting them to empower line managers with work on day-to-day HR issues. The integration of HRM functions with broader business strategies can provide a wider range of solutions for complex organisational issues and, throughout the process, become a sustainable competitive advantage source for the organisation. Our results on the test of second hypothesis also raise the question as to whether, in the real world, firms, after having involved HR directors in the strategic affairs of the company, empower them enough with worthwhile duties and responsibilities. The inability to do so can affect workers' morale—an issue that firms need to investigate if employee commitment is lacking.

This work is one conducted in an emerging market setting in the Middle East. The findings have implications for practice both within the country context in which the current work was conducted, and more broadly. Jordan is a relatively developed and stable Middle Eastern country with a significant industrial and commercial base. Importantly, if such strategic HR aspects derived in the West are unable to generate significant performance improvements in in our country context, this would cast doubt on the broader relevance of such aspects across much of the developing world. As the results suggest, strategic HR involvement has an impact on both employee turnover and financial results, whilst HR devolvement has no significant impacts on performance indicators. Our findings on HR devolvement in Jordan indicate that Jordanian HR directors are not pro-active in devolving the decision-making process on key HR issues to line managers. This may be owing to the issues highlighted by Gennard & Kelly (1997) that HR directors may have sensed the lack of competence of line managers in dealing with devolved manpower responsibilities in some organisations. This, in turn, could support the presence of personnel managers or specialists in organisations in dealing with such HR tasks. Alternatively, or in addition to this, the behaviour of HR director could be also explained by the fact that Jordan is considered high on the power distance scale, which may then result in low level of devolvement. Finally, this withholding behaviour of

HR directors could perhaps also be explained by the very nature of the industry. The financial sector is a skill-intensive sector in which employees already have a critical talent mass embodied within them. Topping this pool of talent with key firm-specific skills by empowering them with HR related issues (those relating to training and rewards, for example) could result in loss in time spent in training empowered employees and disclosure of proprietary information as to how decisions are taken. The financial industry was selected owing to its growing prominence in many national settings, and because it is often seen as a pioneering innovation that impacts on other firms across an economy (Erturk *et al*., 2008). More specifically, within many national contexts, financial industry players have sought to promote actively people management practices centring on a narrow conceptualisation of agency theory, which suggests that managers—and, by extension, employees—are rational actors that will depart from the agenda of maximising shareholder value, unless closely reigned in, with continued tenure and reward contingent on performance (Jensen, 2000). Hence, it could be argued that firms within the financial services sector are particularly likely to apply different HR practices and policies (both externally, and seek to emulate them internally), and that these are likely to directly impact on their performance (Erturk *et al*., 2008).

Limitations

Despite the contributions of the current study, there are limitations to be acknowledged. The study 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. Therefore, we suggest that future researchers conduct such a study targeting a larger and more diverse sample. The study adopts a cross-sectional design, which does not allow us to rule out the possibility of reverse causation (see Wright *et al*., 2001). A longitudinal design would help to strengthen the reverse causation possibility and to overcome time-lag effects of the core aspects of SHRM on organisational performance (Andersen *et al*., 2007).

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Table 1: Convergent validity-standardized factor loadings, average variance extracted, and reliability results

Constructs	**Strategic HR Involvement**	**HR Devolvement**
Contribute to planning and implementing the business and corporate strategies.	.903	
The HR director has become more influential in strategic decision making process.	.901	
The level of the representation of the HR director in terms of Board meeting.	.810	
How important is the delegation of the day-to-day HR work to line managers		.741
How important is the delegation of the HR strategic decisions to line managers		.741
Average Variance Execrated (AVE)	**.76**	**.55**
Cronbach's α	**.60**	**.70**

Table 2: Basic statistics on variables

Constructs	**Mean**		**Std. Deviation**	**Variance**	**Skewness**		**Kurtosis**	
	Statistic	**Std. Error**			**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Strategic HR Involvement	6.09	.099	.980	.961	-.252	.243	.460	.481
HR Devolvement	5.46	.151	1.50	2.27	-.414	.243	-.117	.481
Employee Turnover	3.48	.171	1.69	2.88	.250	.243	-1.20	.481
Return on Assets (ROA)	4.02	.572	5.69	32.42	-.042	.243	.093	..481
Return on Equity (ROE)	7.54	.933	9.29	86.33	-.408	.243	.907	.481
Firm Size	3.39	.195	1.94	3.78	.097	.243	-.383	.481
Firm Age	2.55	.095	.952	.907	-.355	.243	-1.08	.481

Table 3: Zero order correlations of variables

Constructs	Strategic HR Involvement	HR Devolvement	Employee Turnover	ROA	ROE	Firm Size	Firm Age
Strategic HR Involvement	1						
HR Devolvement	.595**	1					
Employee Turnover	-.776**	-.458**	1				
ROA	.445**	.377**	-.432**	1			
ROE	.398**	.235*	-.354**	.761**	1		
Firm Size	.280**	.052	-.227*	-.211*	.077	1	
Firm Age	.180	.078	-.053	-.138	.084	.667**	1

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

Table 4: Hierarchical regression analysis for employee turnover

Variables	Step 1		Step 2	
	Employee Turnover		**Employee Turnover**	
	B	Significance	*β*	Significance
Controls:				
Log firm size	-.346	.010*	-.126	.161
Log firm age	.178	.181	.169	.051†
Core Aspects of SHRM				
Strategic HR Involvement			-.766	.000***
HR Devolvement			-.009	.913
R^2	.069(.050)		.62(.602)	
ΔR^2	.069		.55	
F for ΔR^2	3.56*		67.48***	
Durbin-Watson	2.13			

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

Table 5 Hierarchical regression analysis for ROA and ROE

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			

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