

The Practice of Strategic Human Resource Management in a Developing Country

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Abstract

Firms are continuously improving their human resource management (HRM) practices in order to achieve sustainable competitive advantage and increase their profitability. These practices include employee involvement, training, empowerment, compensation and rewards, etc. The purpose of this research is to examine the relationship between human resource practices and firm performance. Using companies in Saudi Arabia, this study tests the proposition that HR practices (including training, job design, employee skills, employee attitudes, employee motivation, etc) has an impact on the performance of the different business units in this group.

Keywords: Human Resources Practices; Strategic Human Resource Management (SHRM); Performance

Introduction

Human resource management is defined as “a belief of people management on the idea that human resources are significant factors in maintaining the success of a business” (Price, 2004). He added that, by adopting an efficient usage of its personnel, a company can achieve a competitive advantage and reach its goals. In the last two decades, an increasing interest in explaining the impact of human resource management strategies on the organization’s performance has evolved in the HR research (Arthur, 1994; Becker and Gerhart, 1996; d’Arcimoles, 1997; Becker and Huselid, 1998, 2006; Bae et al., 2001; Björkman and Xiucheng, 2002; Boselie et al., 2003; Paauwe, 2004). As stated by March and Sutton (1997), explaining organizations’ performance variations remain one of the most enduring subjects of study. Since performance stands and remains as one the main objectives of any company, much research has been directed at explaining and understanding the relationship between human resources practices and firm performance. A number of studies (Becker and Gerhart, 1996; Mc Mahan et al., Dyer and Shafer, 1999) have recognized the existence of a close connection between HR practices and performance, yet, the linkage process is still enigmatic and remains a black box to be unlocked. Other studies (Welbourne and Andrews, 1996; Hoque, 1999; Harel and Tzafrir, 1999; Khatri, 2000) have linked the HR practices to different organizational outcomes such as productivity, quality, turnover, market value, ROI, and profits. All this concern about the relationship between HR practices and performance is justified; companies having long term objectives of sustained competitive advantage and high profitability should enhance their human capital through putting in place systems and practices as tools to attain those goals.

This study aims to explore the relationship between HR practices and firm performance and to understand how human resource decisions influence organizational performance.

The chapter that follows presents an analysis of the strategic human resource management (SHRM). At first, the various approaches to the theory of SHRM are synthesized. Then, a review of the SHRM and performance research will be introduced. Finally, some hypotheses will be developed to be tested by reference to the Data available. The next part is wholly devoted to the empirical study conducted from the collected Data. In the conclusion, findings of this piece of work are summarized. Appropriate recommendations are highlighted. Some limitations of this kind of research are also printed with further remarks and ideas for future work.

Literature Review

To respond to their customers' needs and move forward in their business, companies should manage their employees' special skills as they are viewed as an important source of competitive advantage. Succeeding to attract, retain and motivate a skilled workforce helps companies to improve their results. Companies are admitted to effectively manage their different HR activities such as recruiting, selecting, hiring, safety, wellness, training, organization development, communication and rewarding personnel to ensure they help positively in their financial growth and meet their challenges in a fast-changing business environment.

Companies are continuously facing new challenges due to the intense competitive environment and the globalization of marketplaces. They are increasingly asked to maintain a competitive advantage by either becoming a low cost leader or a differentiator. Companies build their strategies by determining their goals and objectives and looking at the different environments, external and internal. A highly committed and competent workforce helps companies succeeding these strategies and gain competitive advantage as long as these strategies are communicated and the workforce is involved in both the formulation and implementation phases. Leadership is also a very important factor in the success of strategies. As have been noted by the strategic management guru Michael Porter in his interview by Knowledge Wharton (2005) that "strategy is not something that is done in a bottom-up consensus process. The companies with really good strategy almost universally have a very strong CEO, somebody who is not afraid to lead, to make choices, to make decisions. Strategy is challenged every day, and only a strong leader can remain on course when confronted with well-intentioned ideas that would deviate from the company's strategy. You need a leader with a lot of confidence, a lot of conviction and a leader who is really good at communication." Moreover, as stated by Legge (1989), human resource policies should be integrated with business planning. So, it is important to integrate the HR policies with one another and with business planning more generally (Sisson, 1990). So, companies should consider people as assets rather than variable costs and that they are valuable and constitute a source of competitive advantage (Beer et al., 1984; Legge, 1995). As stated by Armstrong and Baron (2002) that "people and their collective skills, abilities and experience, coupled with their ability to deploy these in the interests of the employing organization, are now recognized as making a significant contribution to organizational success and as constituting a significant source of competitive advantage." Also, as remarked by Baird and Meshoulam (1988) that "business objectives are accomplished when human resource practices, procedures and systems are developed and implemented based on organizational needs, that is, when a strategic perspective to human resource management is adopted."

The socio-economic and political changes occurred in the last decades had increased the global competition and caused the rethink in the way organizations are managed (Baker, 1999). According to Mello (2006), technological advancement, increasing attention to ethical behavior, demographics and diversity, and globalization are critical trends that have affect the way how organizations are managing their employees and gave the surge of the strategic human resource management concept. According to Bratton and Gold (2007), strategic human resource management

is “the process of linking the human resource function with the strategic objectives of the organization in order to improve performance”. They added that SHRM is a managerial process requiring human resource policies and practices to be linked with the strategic objectives of the organization. Wright and McMahan (1992) define SHRM as “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.”

The SHRM literature is rooted in “Manpower Planning” (Bratton and Gold, 2007). However, the perspective of affirming the importance of the effective management of people as a source of competitive advantage, has encouraged the development of different frameworks that emphasizes the strategic role of the HR Function.

Strategic human resource management, therefore, can be defined as the process of linking the human resource function with the strategic objectives of the organization in order to improve performance. (Bratton and Gold, 2007)

There are considerable debate in the literature related to whether the SHRM and related HR strategies is an *outcome* or a *process*. For some academics such as Snell et al. (1996) the SHRM is an “outcome” where they view the SHRM as an organizational systems designed to achieve sustainable competitive advantage through people. While for others, it is a process of linking HR practices to business strategy (Ulrich, 1997). Similarly, Bamberger and Meshoulam (2000) describe SHRM as the process by which organizations seek to link the human, social, and intellectual capital of their members to the strategic needs of the firm’.

Another debate is on classification of SHRM as in terms of a proactive–reactive continuum. Thus, in the proactive orientation, The HR manager has a seat on the strategic table and active in the strategy formulation. Where is in the reactive one, the HR is concerned with the challenge of *matching* the philosophy, policies, programs, practices and processes (the Five Ps) in a way that will stimulate and reinforce the different employee role behaviors appropriate for each competitive strategy (Bratton and Gold, 2007).

Further, the issue of external context (the environment) is viewed important as a determinant of HR strategy and has been incorporated in some of the HR strategy models. Bamberger and Phillips’ (1991) model illustrates links between three poles: the environment, human resource strategy and the business strategy. Thus, this model implies that HR strategy is influenced by contextual variables such as markets, technology, national government policies, and trade unions. However, Purcell and Ahlstrand critic such models citing that they tend to lack ‘precision and detail’ in terms of the precise nature of the environment linkages, and that ‘much of the work on the linkages has been developed at an abstract and highly generalized level’ (Purcell and Ahlstrand (1994) quoted in Bratton and Gold (2007), p 36)

Another part of the strategic HRM debate has focused on the integration or ‘fit’ of business strategy with HR strategy. Such view is calling for the HR function to be ‘strategically integrated’, and depicts the need to establish a close two-way relationship or ‘fit’ between the external business strategy and the elements of the internal HR strategy.

However, there are two meaning of SHRM. While Snell et al. (1996) consider it as an outcome (organizational systems designed to achieve sustainable competitive advantage through people), others like Ulrich (1997) consider it as a process (linking HR practices to business strategy). Since firm performance is the major organizational goal, most of the studies have been directed at understanding the relationship between human resource practices and firm performance (Park et al., 2003).

Many researchers (Arthur, 1994; Huselid, 1995; Delaney and Huselid, 1996; Huselid et al., 1997; McMahan et al., 1999; Fey et al., 2000; Harris and Ogbonna, 2001; Huang, 2001; Fey and Björkman, 2001; Martin-Alcazar, 2005; Stavrou and Brewster, 2005; Christiansen and Higgs, 2008)

have suggested that company's HRM practices contribute to increase its performance and thus help it to grow and gain sustainable competitive advantage (Wright et al., 1994). The concept of HR systems and/or practices as a strategic determinant of organizational performance has attracted considerable attention during the last two decades. These studies attempted to answer the question of whether or not human resource management practices have a crucial role in the creating a high financial performance and sustaining a competitive advantage in a fast changing environment. Traditionally, human resources have been viewed as a cost to be minimized (Becker and Gerhart, 1996) and subject to be downsized in order to reduce these costs, rather than a source of value creation and a strategic lever that can have economically significant effects on the firm's performance (Becker and Gerhart, 1996). As mentioned by Becker and Huselid (1998), a skilled and motivated workforce can have a very important role to provide the necessary speed and flexibility to the organization to gain competitive advantage in a dynamic market environment where traditional sources of competitive advantage (quality, technology, economies of scale, etc.) have become easier to be imitated by the organization's rivals. This interest in addressing the impact of human resource practices on firm performance has been widely studied following different approaches (e.g., resource-based view, contingency approach, universal approach, etc.) and within different location context (U.S., U.K., Netherlands, Russia, etc.).

Huselid (1995) studied the impact of HRM policies and practices on firm performance. He found that these practices have a significant impact on employee outcomes (turnover and productivity) and on the overall corporate performance.

Huselid et al. (1997) evaluated the impact of HR managers' capabilities on HR effectiveness and the impact of the latter on the corporate financial performance using a sample of 293 U.S. firms. They found that effectiveness was associated with capabilities and attributes of HR staff and that there exists a relationship between HR management effectiveness and productivity, cash flow, and market value.

Wright et al. (1999) examined the impact of HR practices (selection, training, compensation and appraisal) and participation of the financial performance of 190 US petro-chemical refineries. Their results confirmed the existence of a direct relationship between training and compensation with workforce motivation. However, they found that only under highly participative systems, HR practices (selection, compensation and appraisal) are positively related to firm performance.

Wan et al. (2002) tested six strategic HR variables' (training, staffing, empowerment, performance appraisal, job design, and performance-based pay) impact on firm performance and then examined how the combination or the bundle of such variables together affect this performance. Using a sample of 191 Singaporean companies, they found that effective implementation of the different strategic HR variables have a positive effect on organizational outcomes (especially to the firm HR performance-employee productivity, job satisfaction and commitment). They also found that performance appraisal and empowerment and training were very important issue to tackle by top management if they are interested to enhance their HR performance and hence the organization performance.

Bae and Lawler (2000) examined the effects of organizational strategic variables regarding HRM and the source of competitive advantage of 138 Korean firms. They found that firms with high-involvement HR strategies had better performance.

Batt (2002) examined the relationship between human resource practices, employee quit rates, and organizational performance in the service sector. His findings confirm that, firms emphasizing high skills, employee participation in decision making and in teams, and human resource incentives such as high relative pay and employment security, have lower quit rates and higher performance (sales growth).

Using a sample of 52 Japanese multinational corporation subsidiaries in the U.S. and Russia, Park et al. (2003) examined the impact of HR practices on firm performance. Their result confirmed the hypotheses that employee skills, attitudes and behaviors play a mediating role between HR systems and firm outcomes.

Paul and Anantharaman (2003) tested the causal model linking HRM with organizational performance. They found that practices like training, job design, compensation and incentives had a direct effect on the operational performance parameters.

Sing's study (2003) tested and showed that there exists a significant relationship between strategic HR orientation of Indian firms and their performance. HR orientation was conceptualized as the alignment of HR planning, selection, evaluating, compensating, developing and staffing practices with the business strategies of the firm.

Using the Miles and Snow's typology (1984), Rodriguez and Ventura (2003) analyzed the relationship between HRM systems and the performance of 120 Spanish firms. Their findings indicated that there's a positive effect of HR systems on employee turnover and overall firm performance.

Similarly, Richard and Johnson's study (2001) found that HR effectiveness significantly reduces employee turnover and increases overall market performance assessment. They conducted their study on a sample of 323 banks in the U.S. using the resource-based view of the firm.

In his study of 194 Singaporean companies from different industries, Khatri (2000) found that there's a strong direct influence of HR practices on firm profitability. Although their findings suggest that the role of HR function in Singapore companies still remains secondary, they stated that encouraging signs suggest that HR activities are increasingly being aligned and integrated with the organization's overall strategy.

For their contribution to the existing literature on SHRM, Bae et al. (2003) have chosen a sample of 680 firms in the Pacific Rim countries (Korea, Taiwan, Singapore, and Thailand) to measure the effects of high-performance work system (HPWS) on perceived financial performance. The HPWS includes a significant delegation of authority to lower-level employees (empowerment), extensive training and development of these employees, reliance on pay-for-performance, broadly defined job responsibilities, and employee participation in non-work aspects of organizational decision making. They found that the HPWS exerted a generally positive impact on perceived performance in this region.

Other studies have examined the relationship between HR practices and organizational performance in different locations and found positive results includes: Bjorkman and Xiucheng (2002) and Li (2003) in China; Fey and Bjorkman (2001) and Fey et al. (2000) in Russia; Boselie et al. (2001) in Netherlands; and Huang (1997, 2000) in Taiwan.

More recently, Wattanasupachoke (2009) had explored the relationship between HR strategies and the performance of 124 Thai companies and found that the extra pay and profit sharing is the only factor group that has a statistically important correlation with the companies' financial performances such as sales, profits and liquidities.

As a result of the above, an extensive body of literature about the impact of HR practices on firm performance had emerged as a dominant research issue in the HRM field (Fey et al., 2000). The results of these studies confirm the dependency of firm success on the caliber of its employees and how effectively they are managed (Cheng and Brown, 1998).

As mentioned by Panayotopoulou et al. (2003), in the study of the relationship between HRM and performance, some researchers have focused on a single or several HR practices (e.g., Abowd et al., 1990; Gerhart and Milkovich, 1990; Leonard, 1990; Terpestra and Rozell, 1993; Banker et al., 1996; Delaney and Huselid, 1996; Delery and Doty, 1996; Koch and McGrath, 1996;

Khatri, 2000), while others have studied the effect of a bundle of HR practices on performance (e.g., Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Youndt et al., 1996; Becker et al., 1997; Ichniowski et al., 1997; Huang, 1998; Hoque, 1999).

Previous researchers have associated human resource practices to high performance (Snell and Dean, 1992; Huselid, 1995; Delaney and Huselid, 1996; Guthrie, 2001; Hartog and Verburg, 2004).

For the purpose of this study, the following hypotheses have been formulated:

HR Planning

Bratton and Gold (2007, page 197) define HR planning as ‘the process of systematically forecasting the future demand and supply for employees and deployment of their skills within the strategic objectives of the organization’. According to Werner and DeSimone (2006, page 10), human resource planning helps companies predict how changes in their strategy will affect their HR needs. Planning the workforce needs of any company is very critical and important especially in the rapid changes in external market demands. Koch and McGrath (1996) found a positive relationship between HR planning and labor productivity.

Hypothesis 1: Effective human resource planning is positively associated with organizational performance

Recruitment and Selection

According to Bratton and Gold (2007, page 239), recruitment is ‘the process of generating a pool of capable people to apply to an organization for employment’ and selection is ‘the process by which managers and others use specific instruments to choose from a pool of applicants the person(s) most likely to succeed in the job(s), given management goals and legal requirements. Companies using a good selectivity in the hiring process ensure getting the right skilled and qualified people for the right job (Pfeffer, 1994; Huselid, 1995). According to Koch and McGrath (1996), there exists a positive relationship between HR recruitment and selection and labor productivity.

Hypothesis 2: Good selectivity in the hiring process is positively associated with organizational performance

Training and Development

Companies intending to gain a sustained competitive advantage should help their employees raise their skills by receiving continuous training so that they can learn new things need to ensure quality improvement of the products and services of the company.

Hypothesis 3: The amount of training is positively associated with the performance

Participation and Involvement

Companies intending to gain a sustained competitive advantage should help their employees participate actively decision-making processes and involve them in the day-to-day problems. Putting in place employee involvement program afford employees with opportunities to reflect their own attitudes and work experiences, as well as their own hopes for the future (Bratton and Gold, 2007). Batt (2002) states that high-involvement practices may influence organizational performance and that employees’ involvement in problem-solving and self-directed teams may increase autonomy and satisfaction.

Hypothesis 4: The greater participation of employees in decision making is positively associated with performance

Performance Appraisal

The measurement of employees' performance allows the company to provide compensation fairly to the deserving individuals according to certain predetermined criteria like employee competency, teamwork ability, initiative, soft skills and ethics (Messmer, 2004).

Hypothesis 5: Performance appraisal is positively associated with performance

Compensation and Benefits

Bratton and Gold (2007, p 358) state that reward refers to 'all of the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform'. Motivating employees through a good reward system constitutes a difficult and challenging task for general managers as it can positively affect employees' behavior toward their jobs and increase their commitment and thus their performance. Armstrong and Murlis (2007, p 34) states that reward strategies are an important part of an organization's HR strategy and should be bundled with other HR strategies so that they complement and reinforce one another. Arthur (1994), Huselid (1995) found that motivation through a good reward system can lead to an increase in employees' productivity. Kalleberg and Moody (1994) states that some forms of compensation such as profit sharing is used as a strategic variable to improve firm competitiveness because it ties the interests of workers more closely to that of the organization and thus enhance their efforts and lead to better performance.

Hypothesis 6: Performance-based compensation is positively associated with performance

In conclusion, many studies (e.g., MacDuffie, 1995; Delaney and Huselid, 1996; Huselid et al., 1997) have shown a positive relationship between the different HR practices and firm performance. MacDuffie (1995) has carried out one of the first studies on an HR bundle of HR practices and found that it affects performance not individually but as a group.

Table 1 Summary of selected research studies

HR practices	Authors
Planning	Bae et al. (2003), Chang and Chen (2002)
Recruitment and Selection	Agarwala (2003), Ahmad and Schroeder (2003)
Training and Development	Appleyard and Brown (2003), Arthur (1994)
Participation and Involvement	Addison and Belfield (2001), Bacon and Blyton (2001)
Performance Appraisal	Batt (1999), Batt et al. (2002)
Compensation and Benefits	Arthur (1994), Bacon and Blyton (2001)

Methodology

This study examines whether there exists a relationship between human resource practices and systems and the corporate performance of companies in Saudi Arabia.

Data

The data used in this research was collected primarily from a questionnaire developed from the previous literature (information on strategic HR effectiveness) and secondary data information sources (measures of performance). The study of Khatri (2000) was the primary source of the questionnaire statements. The surveys were administered in English to individuals with principal administrative responsibilities. They were asked to indicate the extent to which their company used the following HR practices: planning, recruitment and selection, training and development, participation and involvement, performance appraisal, and compensation and benefits. A total of 70 surveys were collected.

Dependent Variable

As mentioned by Lumpkin and Dess (1996), including multiple performance measures in testing the research hypotheses will avoid any misleading descriptive and normative theory building. In this study, two types of performance measurement were collected. The first type includes the opinion of the respondents concerning rate of the company's performance over the past three years compared to other companies in the industry. The second type was the sales growth and profit growth.

Independent Variables

The items of the questionnaire were developed on the basis of literature review and studying some previous questionnaires. A five point Likert-type scale was used as the response format for the variables, with assigned values ranging from 1 being "Strongly disagree" to 5 being "Strongly agree". The titles of the items (HR practices) were not revealed to the respondents. The items of our questionnaire are grouped into six HR practices as follows:

HR Planning includes eight statements (1 to 8). It represents the importance of HR planning in the company. The scale exhibited a coefficient of reliability Cronbach Alpha of .935.

Recruitment and Selection includes three statements (9 to 11). It represents the extensive of the selection process. The scale exhibited a coefficient of reliability Cronbach Alpha of .610.

Training and Development includes five statements (12 to 16). It represents the importance of employees' training, its needs and evaluation of its effectiveness. The scale exhibited a coefficient of reliability Cronbach Alpha of .922.

Participation and Involvement includes six statements (17 to 22). It represents the employees' participation degree in decisions and the effectiveness of communication within the company. The scale exhibited a coefficient of reliability Cronbach Alpha of .879.

Performance Appraisal includes six statements (23 to 28). It represents the effectiveness of the performance appraisal procedure within the company and the degree of involving the employee in this process. The scale exhibited a coefficient of reliability Cronbach Alpha of .919.

Compensation and Benefits includes nine statements (29 to 37). It represents the effectiveness of the compensation procedure within the company and the degree of involving the employee in this process. The scale exhibited a coefficient of reliability Cronbach Alpha of .923.

Empirical Findings

Descriptive Statistics

Table 2 shows the distribution of respondents by age, length of service, education level and salary. Of the 70 respondents, 33 (47%) were below forty years old. The distribution by education level shows that most respondents (74%) have a university degree. Concerning the monthly salary, 38 respondents (54%) have a salary less than SR 10,000. Table 2 also shows that 67% of the respondents have less than 10 years experience with the company. Most of the respondents are located in the Eastern province of Saudi Arabia where the headquarters are located. The majority of the companies where the respondents work are of small and medium size (less than 500 employees)

Table 3 displays the means, standard deviations and intercorrelations among the variables representing the different HR practices, namely, planning, recruitment and selection, training and development, participation and involvement, performance appraisal, and compensation and benefits. It is clear that employees are agreeing that these practices are well-established in the different business units of the company. This result can be considered as a good sign that the different practices are communicated companywide and recognized by the different managerial positions.

Table 2: Respondents Details

Variable	Count	Variable	Count
Age		Education Level	
Less than 20 years	1	Elementary	0
20 to 30 years	10	Intermediate	3
30 to 40 years	22	High School	5
40 to 50 years	24	Diploma	8
More than 50	13	University Degree	52
		Other	2
Experience		Salary*	
Less than 1 year	4	Less than SR 1,000	0
1 to 5 years	29	SR 1,000-4,999	14
5 to 10 years	14	SR 5,000-9,999	24
10 to 15 years	11	SR 10,000-14,999	12
15 to 20 years	6	SR 15,000-20,000	1
More than 20 years	6	Over SR 20,000	1
Region		Size of Company	
Eastern	61	Less than 10 employees	1
Western	4	10-50 employees	27
Northern	0	50-100 employees	2
Southern	4	100-250 employees	6
Central	1	250-500 employees	9
		Over 500 employees	25

*\$1US=SR3.75

Table 3: Means, standard deviations and intercorrelations among variables

Variable	Mean	SD	1	2	3	4	5	6
1 Planning	3.4696	1.02315	1					
2 Recruitment	3.5476	.92215	.614**	1				
3 Training	3.2543	1.08744	.567**	.654**	1			
4 Participation	3.3167	.92694	.399**	.526**	.731**	1		
5 Performance	3.2071	1.01297	.244*	.300*	.491**	.249*	1	
6 Compensation	3.2238	.98285	.495**	.558**	.634**	.450**	.470**	1

Notes: N=70

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

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

In turn, Table 4 displays the mean and SD of the different HR practices taken in detail as appear in the questionnaire. Almost all practices have a mean superior to 3 indicating that the company managers agree on the effectiveness of these practices in the company.

Factor Analysis

The questionnaire respondents were asked to describe how closely the statements match their current company's HR policies and practices on a 5-point Likert scale. A principal component factor analysis with varimax rotation was used to determine underlying factors. Factor loadings of 0.5 and above were retained. The results are presented in Table 5. The application of principal component

analysis to the 37 HR practices has lead to six underlying factors that together accounted for 76.8 per cent of the variance.

Table 4: Descriptive Statistics (N=70)

	Mean	SD
Q1.1	3.73	1.372
Q1.2	3.56	1.258
Q1.3	3.37	1.218
Q1.4	3.83	1.142
Q1.5	3.43	1.269
Q1.6	3.40	1.147
Q1.7	3.27	1.166
Q1.8	3.17	1.274
Q2.1	3.44	1.421
Q2.2	3.70	.983
Q2.3	3.50	1.248
Q3.1	3.20	1.358
Q3.2	3.21	1.273
Q3.3	3.24	1.160
Q3.4	3.46	1.163
Q3.5	3.16	1.258
Q4.1	3.16	1.223
Q4.2	3.14	1.289
Q4.3	3.31	1.161
Q4.4	3.23	1.092
Q4.5	3.31	1.234
Q4.6	3.74	1.031
Q5.1	3.30	1.220
Q5.2	3.23	1.194
Q5.3	3.09	1.126
Q5.4	3.17	1.307
Q5.5	3.33	1.151
Q5.6	3.13	1.203
Q6.1	3.26	1.176
Q6.2	3.21	1.141
Q6.3	3.21	1.178
Q6.4	2.80	1.400
Q6.5	3.66	1.214
Q6.6	3.40	1.323
Q6.7	3.06	1.202
Q6.8	3.44	1.258
Q6.10	2.97	1.329

Table 5: Principal Components Factor Structure of the HRM practices

	Factor Loading
Planning	
Human resource department is an integral part of the company's strategic planning process	.852
The formulation and implementation of human resource activities are in line with overall corporate strategy	.886
The human resource department has an explicit statement of its mission and goals	.860
The human resource management function is accorded an important role in the company	.817
All human resource activities in the company (selection, training, compensation, appraisal, and employee relations) are fully integrated with one another	.784
The HR department formally evaluated its selection and staffing policies	.684
There exists a formal written HR plan based on the strategic needs of the firm	.725
The HR head is involved in the strategic business planning process	.699
Recruitment	
Applicants for a job in the company take formal tests before being hired.	.782
Applicants undergo structured interviews (job related questions, same questions asked for all applicants, rating scales) before being hired.	.838
When new management positions come up, the company normally tries to fill them with people from within the department rather than recruiting from outside	.651
Training	
The company places a great deal of importance on training	.689
Managers analyze the employee training needs	.799
Managers evaluate the effectiveness the organization's employee training through behaviors	.730
Managers evaluate the effectiveness the organization's employee training through results	.750
The company conducts cost-benefit analysis to assess the effectiveness of the training programs	.672
Participation	
Employees in this job have a reasonable and fair complaint process	.891
The firm has a clear strategic mission that is well communicated and understood at every level throughout the firm	.881
Professional staff are briefed about company's strategies	.781
Employees are allowed to make many decisions in their job	.858
Employees are often asked by their supervisor to participate in decisions	.903
Superiors keep open communication with employees in their job.	.775
Performance Appraisal	
The employees' capabilities are viewed as the main source of competitive advantage	.802
Employee input and suggestion are highly encouraged	.837

Employees input and suggestions are highly implemented	.773
The company places a great deal of importance on merit when making promotion systems	.832
The superior normally discusses the performance of his subordinates with them	.771
Performance appraisal includes the supervisor setting objectives and goals of subordinates for the period ahead in <i>consultation</i> with them	.807
Compensation	
The firm compensation system is closely connected with the financial results of the company	.770
The company uses performance-based compensation to a large extent	.858
Compensation practice is linked to firm's goals and objectives	.740
Employees in this job regularly (at least once a year) receive a formal evaluation of their performance	.568
Job performance is very important in determining his earnings	.704
Pay raises for employees in this job are based on job performance (competencies, motivations and behaviors)	.657
Promotion is based primarily on seniority	.700
Qualified employees have the opportunity to be promoted to positions of greater pay and/or responsibility within the company.	.576
The company constantly reviews and updates the range of benefits to meet the needs of employees	.639

Table 6: Regressions on firm performance

<i>Independent variables</i>	<i>P1</i>	<i>P2</i>	<i>P3</i>	<i>P4</i>	<i>P5</i>	<i>P6</i>	<i>P7</i>	<i>P8</i>	<i>P9</i>
Planning	.375**	.260*	.364*	.321*	.281*	.145	.419**	.434**	.318*
Recruitment	-.084	-.007	.047	.060	.114	.076	-.025	-.083	.141
Training	.340*	.205	.188	.084	.098	.176	-.086	-.005	-.060
Participation	.092	.212	.131	.146	.085	.104	.373*	.270*	.088
Perf. Appraisal	-.136	-.121	-.094	-.137	-.093	-.279*	.085	.002	-.075
Compensation	-.013	.082	-.059	-.094	-.070	.040	-.171	-.037	-.099
R²	.346	.334	.307	.194	.181	.171	.282	.271	.140
Adjusted R²	.284	.271	.241	.118	.103	.092	.214	.201	.059
F	5.561**	5.268***	4.658***	2.534*	2.314*	2.170*	4.133***	3.894**	1.716
N	70	70	70	70	70	70	70	70	70

Notes: *p< .05, **p< .005, ***p< .001 in two-tailed tests

Standardized regression coefficients are shown

HR Practices Correlation with Firm Performance

Finally, regression analysis has been conducted between each HR practice and the firm performance which is measured by the perception of the different respondents as appear in the following question: "Compared to other companies in your industry, please rate your company's performance over the past three years on the following indicators." The different measures were: 1. Public Image and Goodwill, 2. Quality of services, 3. Efficiency of operations, 4. Market share

growth, 5. Profit growth, 6. Sales growth, 7. Staff morale, 8. Staff overall satisfaction, 9. Staff loyalty. Table 6 shows the regression of the HR practices on the performance measures. Results reveal a positive relationship between the overall HR practices and the performance of the firm, and thus, confirming the different hypotheses and past researches.

Conclusions

The purpose of this study was to investigate the existence of a relationship between human resource practices and firm performance. The alignment of HR planning, recruitment, training, participation, performance appraisal, and compensation with firm business strategies could lead to competitive advantage and profit growth. It is interesting to find that HRM practices in the studied companies have a direct causal relationship to performance obtained by asking the different top management about their perception of 9 measures. This can be seen as a significant finding in SHRM research, especially in the Saudi context where, at my knowledge no past research had been conducted. This finding is in conformity with previous studies (Pfeffer, 1994; 1998; Huselid, 1995; Youndt et al., 1996). It follows that these companies should continue in enhancing more the competence of its employees to attain better performance goals. So, it is important to ascertain that the HR function plays its full role in attracting, retaining, motivating and developing the human resources according to personal and group requirements, which will help the company to use effectively its human capital to develop and sustain a competitive advantage, as people remain the unique inimitable resource in the firms.

In spite of the expected good results obtained from the statistical analysis, the limitation of this study can be either theoretical as well as empirical. Theoretically, although in many studies the company strategy appeared to influence the choice of HR strategy, the resource-based view suggests that companies will choose the appropriate business strategies according to the available HR pools. Therefore, the relationship between business and HRM strategies is dynamic and need to be reviewed constantly. Empirically, the causality effect between HR practices and performance is not clear since large companies with good performance usually adapt HR practices of long-term perspective.

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