

# Relationship between SHRM and Organizational Performance among Iraqi Oil Companies

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## Abstract

Strategic human resource management (SHRM) plays a vital role to organizations success and performance. People become an essential element to organizations development. Although, extensive literature is available on the SHRM effectiveness, it is still unclear what SHRM practices can be linked with organizational performance. Thus, to fill this gap, this study aims to examine the relationship between SHRM practices and organizational performance in Iraqi oil sector. The study used a random sample of Iraqi oil sector (eight companies represents various streams). Fifteen of Iraq's oil industry companies are owned by the public sector representing a stratified sample, with unit of analysis representing managers and heads departments. Quantitative method (questionnaire) and structural equation modelling are utilized. Total 366 questionnaires were distributed equally to companies within the sample chosen. After initial data screening, 301 responses were used for the final data analysis using Structural Equation Modelling (SEM). Results indicated that SHRM practices (recruitment and selection, training and development and compensation and rewards) are directly linked with organizational performance. The study findings are useful for Iraqi oil sector in order to enhance their organizational performance through using of appropriate SHRM practices.

**Keywords:** Strategic human resource management; Organizational performance; Oil companies; SEM; Iraq

## Introduction

Human resource is the most important factor for any organizations success. HR indeed is increasingly noticed as fundamental component of competitive advantage for the modern organization [1-7]. Employees remain the most valuable assets to gain competitive advantage. However, they are the most difficult asset to manage in any organization [8]. Thus, effective management of HR requires simultaneous use of different HR systems within organizations [9-11].

Several studies highlight an optimistic and positive association between SHRM practices and organizational performance [12]. Some studies have highlighted a direct link between SHRM and performance [13], while some are of the opinion that SHRM influences employees' attitudes and behaviors, which ultimately influences organizational performance [14-18]. There are, however, problems that have been largely overlooked in the current academic debate, namely; what kind of tensions and challenges arise with SHRM positioning in newly democratic and developing countries [19]. Gerhart [20] argues that it is unlikely that a set of SHRM practices will work equally well no matter what the context. This is particularly significant, given that contextual variables such as culture and employees orientations have been found to influence the choice of HR strategies [14,21]. A number of researchers who have conducted studies on this research stream have confirmed the positive impact of SHRM on OP [11,22-26]. However, there is also a group of researchers who have argued that the results of the SHRM -OP link are not encouraging, and that they are, in fact, ambiguous [27-29].

Almost all of the studies concerning the impacts of SHRM practices on firms' performance have been conducted in the US and the UK

[28,30-35]. SHRM researchers argue that it is difficult to make generalized conclusions from current SHRM-performance results, and that there is therefore the need for further empirical investigations from different angles and different context. There are very few studies that have been conducted in Iraq especially in relation to SHRM [36-40]. The studies that have been done in Iraq do not specifically take into account SHRM context but focus generally on performance. There is a dire need of studies that would focus on SHRM and performance relationship in holistic manner as the oil industry is being redeveloped. Jiyad [41] have highlighted that if Iraqi oil and gas industry want to be competitive in nature they would have to focus on human resources coordination along with capacity development of the management of the organizations. Jiyad [41] further points out that the Iraq follows ambiguous policy in terms of compensation packages that are given to contractors. He argues that Iraq needs a proper and sound institutional policy if it wants oil and gas industry to flourish and be sustainable. Thus, the present study investigates SHRM and organizational performance in oil and gas industry in Iraq to fill the gaps mentioned above.

## Literature Review

A steadily increasing number of studies exist that analyze the effect of SHRM on organizational performance at the conceptual and empirical level. In analyzing the impact, most studies conclude that SHRM has a positive effect on organizational performance, even though the size of the effects are often relatively small [29,42]. Many researchers attempted to measure the impact of SHRM on organizational performance and concluded that there is a significant relationship between SHRM and performance [43-45]. Batt [46] explained that organizational performance can be affected by human resource management. Colakoglu et al. [47] asserted that no fixed method is present to evaluate the performance of an organization in

human resources. Therefore, they stated that better SHRM policies can increase organizational performance. Each organization in the same industry has its own different ways of performance assessment. Therefore, one fixed measure of performance cannot fit into all organizations even though they are in the same industry. Collins and Clark [48] asserted that a strategic SHRM is more reliable in assessing the performance of organizations.

Literature related to SHRM practices and firm performance highlights that SHRM practices have significant impact on productivity, financial performance, quality and employee turnover [43,44]. Paul and Anantharaman [49] found that the SHRM practices better serve company performance, unmatched change and competition. Katou and Budwar [50] through an in-depth study on 178 manufacturing firms of Greece found that SHRM practices such as staffing, training, elevation, inducements, welfares, participation, and performance appraisal were completely connected with the organizational performance measurements such as productivity, invention and gratification of customers (Quality). Singh [51] in a study on 82 Indian firms observed that strategic SHRM practices such as training and compensation had significant impact on organizational performance (productivity, quality etc). Two important studies [52,53] in context of developing country also found that strategic SHRM practices have noteworthy connotation with administrative performance.

A number of authors Paauwe, Guest, Mayrhofer and Henrik, Taylor [29,42,54,55] have conducted researches investigating the association between strategic SHRM practices and organizational performance across a diversity of settings and have concluded that there is strong linkage between organizational performance and strategic SHRM. Regarding developing countries there are few studies which discussed the relationship between SHRM and performance and documented that SHRM is strongly related to firm performance [56,57]. Further subsections discussed relationship of each SHRM practice with organizational performance.

### **Relationship between Strategic Recruitment and Selection and Organizational Performance**

Strategic recruitment, as a strategic human resource management function, is one of the activities that impact most critically on the performance of an organization. While it is understood and accepted that poor recruitment decisions continue to affect organizational performance and limit goal achievement, it is best that much effort is put in the recruitment and selection practices [58].

Strategic recruitment and selection also has an important role to play in ensuring worker performance and positive organizational outcomes. It is often claimed that selection of workers occurs not just to replace departing employees or add to a workforce but rather aims to put in place workers who can perform at a high level and demonstrate performance [59-61]. Strategic recruitment and selection play a pivotally important role in shaping an organization's effectiveness and performance, if work organizations are able to acquire workers who already possess relevant knowledge, skills and aptitudes and are also able to make an accurate prediction regarding their future abilities. Strategic staffing in an effective manner can both avoid undesirable costs for example those associated with high staff turnover, poor performance and dissatisfied customers and engender a mutually beneficial employment relationship characterized, wherever possible, by high performance on both sides [62,63].

Pilbeam and Corbridge [64] provide a useful overview of potential positive and negative aspects noting that: "The recruitment and selection of employees is fundamental to the functioning of an organization, and there are compelling reasons for getting it right. Inappropriate selection decisions reduce organizational effectiveness, invalidate reward and development strategies, are frequently unfair on the individual recruit and can be distressing for managers who have to deal with unsuitable employees' (P. 142). Strategic Recruiting and selection is very important for the survival of every organization but that does not end there, new recruits need to be developed and appraised from time to time in order for them to be abreast with new trends and challenges. When employees are developed it help increase their performance and help sustain the growth of organizations [65]. Thus, the above discussion leads us to the following hypothesizes

**H1:** Strategic recruitment and selection practices are positively related to organizational performance.

### **Relationship between Strategic Training and Development and Organizational Performance**

Implementation of formal training and development program offers some potential advantages, quality of work performance in oil and gas sector. For example, training benefits businesses to generate capable substitutes for staff who can leave or be endorsed to positions of superior accountability. It also helps to ensure that companies have human resources that support the needs of business growth and expansion. In addition, training can make a small business big by giving sufficient amount of training to the staff and also takes advantage of advanced technologies and adapt to changing competitive environment. Finally, training can improve productivity and motivation of employees, resulting in an increased productivity and job satisfaction. All these benefits are likely to lead directly to the underlying financial position and the vitality of enterprises [66].

Kroon compared the rapid performance and slow performance of the company, he found that rapid performance depends largely on the ability of companies and their employees in order to maintain its performance strategy. Companies' use training programs to achieve their goals, and stressed that slower performance can reduce the company's productivity and performance. Zhu [67] studied the human resource growth in Japan and noticed that businesses were emphasizing more on effective learning at individual and organizational levels. Kim and Ployhart [68] and also found significant effect of staffing and training on productivity and organizational performance.

According to Tharenou et al. [69], the goal of training is to enhance the organization effectiveness. It also demands an influence on employee's performance, as well as in relation to organizational performance which is mediated by means of employee's performance. Aguinis and Kurt [70] said that training improves the overall organization profitability, effectiveness, productivity, and revenue and other outcomes that are directly related to the training in improving the quality of services. Takeuchi et al. and Thang et al. [71,72] have argued that the success of organization is determined by human resources, definitely not physical resources and is highly endorsed to increase the organization' investments in training in order to offer superior expertise, knowledge and features pertaining to employees rather than their competitors relationship between training and organization performance. Aldamoe et al. [73] claimed that organization performance is measured through financial and non-

financial measures like sale, profit, and market share and non-financial factors measures are efficiency, quality of service, productivity of organization, satisfaction of employees and performance these factors can increase through training. Olaniyan and Ojo [74] believe that training enhances the employees' capacity to contribute to the optimal performance of the organization. Extensive array of literature points to the fact that training and development programs adopted by organizations lead to enhance organizational performance and sustained growth [75-77]. Thus, based on the discussion above, the following hypothesis is formulated for the study.

H2: Strategic Training and development practices have a significant positive relationship with organizational performance.

### **Relationship between Strategic Compensation and Rewards and Organizational Performance**

Performance based returns is the main SHRM practice that companies use to assess and reward workers' efforts [48]. Clearly, performance-based return has a positive effect upon workers and organizational performance [78,79]. Prior studies on the association among performance-related pay and business performance have normally found an optimistic association, but a rising body of empirical studies recommends that it is not just pay level that matters, but pay structure as well [80-83]. Singh [84] documented that compensation and reward policy has a significant relationship with organizational performance.

Barringer et al. [85] in their study on rapid vs. slow growth companies found that workers incentives distinguished the rapid-growth from the slow-growth firms. Companies that were keen to reach rapid-growth provided their workers monetary incentives and stock choices as part of their reward packages. In doing so, firms managed to achieve high levels of performance from workers, provide employees the sense that they have rights in the firm, fascinate and recall high-quality employees, and swing a share of a firm's business risk to the employees. Delery and Doty [24] acknowledged performance-based compensation as the sole strongest forecaster of firms' performance. Both performance-based compensation and merit-based evaluation can be viewed as constituents in organizational incentive systems that inspire individual performance and retention [86].

Cho et al. [87] proposed that an encouragement strategy is an effective way in declining income tolls. Banker et al. [88] in their longitudinal study on hospitality industry found that incentive programs led to higher revenue, increased profits and reduced costs. Similarly, Paul and Anantharaman [49] highlighted that compensation system directly affects the operating performance. To be effective, rewards and compensation policies should be associated with organizational goals. However, researchers have found that the pay for performance can encourage workers, but the employee does not hold the loyalty and performance to organization [89,90]. This means the employees are focused on the job and try to perform better but their emotional attachment with the organization should be weaker. This can cause high turnover intentions among employees. Worker's turnover can expressively sluggish the development, mainly in information concentrated businesses [91]. Thus, based on the above discussion, the study hypothesize that

H3: Strategic compensation and rewards management have a significant relationship with organizational performance.

### **Relationship between Strategic Performance Management and Organizational Performance**

According to Gunasekaran et al. [92], the organizational performance criteria should include profitability, productivity, marketing effectiveness, customer satisfaction, but also employee morale. In this perspective, employee performance is tightly related to organizational performance, effective and efficient employee performance will positively influence organizational performance. Consequently, organizations need to figure out strategies for identifying, encouraging, measuring, evaluating, improving and rewarding employees' performance at work. According to this respect, performance management and appraisal systems have come to play an indispensable role in helping organizations to reach their goals of productivity [93].

Performance management acts as an agent in converting the potential into performance by removing the intermediate barriers as well as motivating the human resource [94]. Wright et al. [95] conducted a research whose results support the notion that businesses which manage employees by using more progressive HR practices can expect to see higher operational performance as a result. According to Ainspan and Dell [96], favourable employee communication has been shown to increase job satisfaction and employee performance and finally result in organizational success [97]. Performance reviews can be regarded as learning events, in which individuals can be encouraged to think about how and in which ways they want to develop [98]. Performance feedback has significant potential to benefit employees in terms of individual and team performance. Moreover, effective performance feedback has the potential to enhance employee engagement, motivation, and job satisfaction [99]. The goals of performance feedback are to improve individual and team performance, as well as employee engagement, motivation, and job satisfaction [100]. Performance feedback is effective in changing employee work behavior and enhances employee job satisfaction and performance [101].

The need to have an effective Performance Appraisal System is supported by Mullins [102], Nganga et al. [103] Verbeeten [104] and Ingram and McDonnell [105] who says that measuring the performance of employees is a compulsory task as it allows a firm to have a record of current firm activity in order to judge their progress and help refocus strategy. This information must always be compared against past performance and initial goals, as well as firms must also compare their performance with other compatible firms. Thus, keeping in view the discussion above and the role of performance management and appraisal in employee and organizational performance, the following hypothesis is formulated.

H4: Performance appraisal system has a significant relationship with organizational performance.

Based on the above hypotheses Figure 1 shows the framework of the study

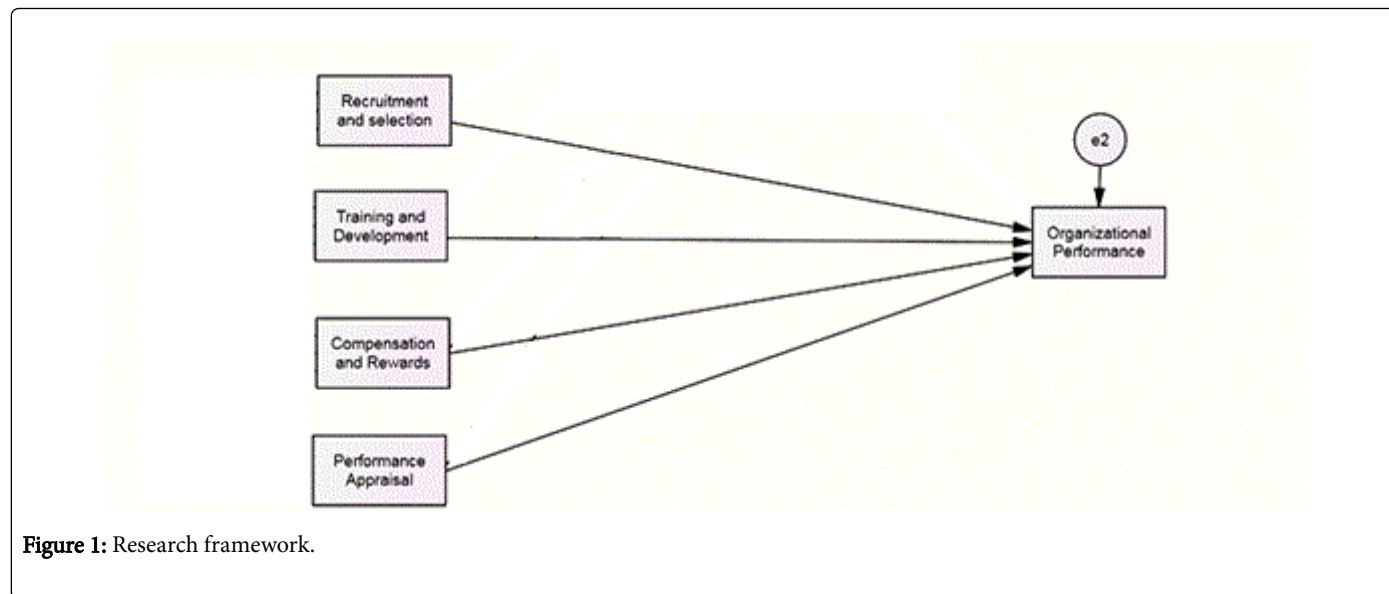


Figure 1: Research framework.

## Methodology

### Measures

The survey instrument for this study utilized different scales that have been developed by the researcher. However, these scales were used in different context previously, thus current study will validate the questionnaire in Iraqi oil and gas sector.

The questionnaire design follows the general guidelines for designing questionnaire to produce attractive, simple and standardized data collection tool that would achieve answering the research questions. The survey includes: a cover letter and the questionnaire itself. The cover letter explains the main purpose of the survey, and the respondents will be assured on the confidentiality of their purpose.

The questionnaires consist of four sections. Section (A) includes twenty questions related to SHRM practices. Section (B) included fourteen questions related to organization citizenship behavior. Section

(C) included eleven questions about organizational performance and last section (D) is intended to gather demographic information of participants. In this part of the survey, there were seven questions that were supposed to gather some information about the respondents. The questions were about the gender of respondent, age, education, and years at the current position, work experience, specialization and tenure. The scale uses a five point Likert scale from 1 is strongly disagree, 2 is disagree, 3 is neither agree nor disagree, 4 is agree, and 5 is strongly agree for measuring the statement for each respective sub question.

SHRM practices are divided into four variables to reflect the complex role and relationship on these practices. The variables related to the SHRM include strategic recruitment and selection, strategic training and development, strategic reward and compensation, and strategic performance appraisal. Each variable has five items. Descriptions of the variables related to SHRM practices are provided in detail in Table 1.

| Variables                           | Item   | References   | alpha |
|-------------------------------------|--|--|-------|
| Strategic Recruitment and Selection | The recruitment and selection processes in this organisation are impartial.<br>Favouritism is not evident in any of the selection process in this organisation.<br>All appointments in this organisation are based on merit (i.e., the person for job selected regardless of their personal characteristic)<br>The company spends enough money and time on EEO* awareness and EEO-related recruitment<br>Men and women have the same employment opportunities in this organisation<br>EEO is promoted within this organisation | Edgar and Geare [106]  | 0.83  |
| Strategic Reward and Compensation   | Pay raises for employees are based on job performance<br>Employees have the opportunity to earn individual bonuses (or commission) for productivity, performance or other individual performance outcomes.<br>A large portion of employees' compensation is based on performance.<br>The amount earned by employees is determined primarily by an incentive plan rather than by a guarantee-income plan.<br>In our company, compensation is decided on the basis of competence or ability of the employee.                     | Wright et al. [95],<br>Bhattacharya et al. [107]<br>and Singh [51] | 0.83  |

|                                     |   |  |      |
|-------------------------------------|---|--|------|
| Strategic Training and Development  | <p>Training motivates employees to achieve more.</p> <p>Employees training and development help increase organizational performance.</p> <p>Employees training and development assist organization to achieve increased productivity.</p> <p>Training and development assist firms in retaining its intellectual assets.</p> <p>Training of employees helps organization to achieve their objectives.</p> | Muhammad [108] and Bishop and Bowra [77] | 0.85 |
| Strategic Performance Appraisal     | <p>Performance appraisal helps to increase firm's performance.</p> <p>Performance appraisal motivates employees.</p> <p>Performance of employees in your firm are measured based on firm's quantifiable objectives.</p> <p>Your firm determines the firm's success through performance appraisal.</p> <p>Firm's objectives are standard for measuring performance.</p>                                    | Muhammad [108] and Cassell et al. [109]  | 0.73 |
| *EEO (Equal Employment Opportunity) |   |  |      |

**Table 1:** Summary Item for SHRM practices.

The mentioned question in the questionnaire is meant to support the hypotheses on the relationship of instrumental SHRM practices (strategic recruitment and selection, strategic training and development, strategic rewards and compensation and strategic performance appraisal) with the organizational performance.

Organizational performance includes three measures such as innovation, service quality and growth. There are 13 items in the scale divided as follows: innovation (5 items), service quality (5 items) and growth (3 items).

| Variables       | Item  | References                    |
|-----------------|---|-------------------------------|
| Innovation      | <p>Our company offer wide variety of products</p> <p>Our company offer flexible products that meet customer needs</p> <p>New products are offered according to the customer needs</p> <p>Innovation is a core value in our organization</p> <p>Our organization gives adequate resources to exploring and implementing innovative ideas</p> | Athanassopoulos, et al. [110] |
| Service Quality | <p>We provide services as promised</p> <p>Dependability in handling customer service problems</p> <p>Performing services right first time</p> <p>Willingness to help customers</p> <p>Keeping customers informed when service will be provided</p>  | Caruana [111]                 |
| Growth          | <p>Our market share has increased over the past 5 years as compared to our competitors</p> <p>We have invested substantial amounts in acquiring new plant and equipment</p> <p>Our profits are steadily increasing</p>  | Spangenberg and Theron [112]  |

**Table 2:** Summary item for organizational performance.

The scale for innovation it is adopted from Athanassopoulos et al, [110] and for service quality, the scale is adopted from Caruana [111] and for growth scale was adapted from Spangenberg and Theron [112], as it is shown in the Table 2.

### Population and sample

The researcher adopted the probability sampling in order to make generalization of the research findings to the study method using a sample of respondents. A highlighted earlier, there are various types of probability sampling, however, for this study; the researcher chose stratified random sampling as a sampling method [113]. The Iraqi oil sector comprises 15 oil companies (upstream, midstream and downstream), extractive industry, manufacturing and industrial

services. The Ministry of Oil also publishes an annual guide containing an up-to-date and reliable information on the size of companies, the names of executives, and contact information for businesses. Moreover, the ministry provides information on target companies through its website (oil.gov.iq/ar). The sample of the study had been obtained through Krejcie and Morgan [114]. Accordingly, the sample size for a population of (approximately 7704 is 366). Thus, the sample of the present study consist of 366 respondents belonging to oil companies operating in southern and central Iraq.

### Results

In the present study, 366 questionnaires were distributed as described in chapter 3 and 313 questionnaires were returned during

data collection process. This implies a response rate of 85.5%. Table 2 demonstrates the sample demographics including company, age, gender, qualification, experience, specialization and experience with current company. In the current study, a total of 301 completed questionnaires were selected after addressing initial data filtration, out of which 41.5 percent of the respondents belongs to SOC company, 251 respondents were male with a percentage of 83.3% and 50 respondents were female (16.7%). Age frequency distribution indicated that 33.88% of respondents are between 31 -35 years of age, and 23.6% are aged between 26 -30 years. While 171 respondents hold a bachelor degree. Out of 301 respondents 154 were from administrative and rest were from technical staff. Most of the responses were having experience between 1-5 years with a number of 131 respondents in the current company, whilst 182 respondents have the experience above than 10 year in this field as shown in Table 3.

| Demographics | Frequency | %     |
|--------------|-----------|-------|
| Company      |           |       |
| IOTC         | 20        | 6.6   |
| MOC          | 44        | 14.6  |
| SCOP         | 35        | 11.6  |
| SGC          | 45        | 14.9  |
| SOC          | 125       | 41.5  |
| SRC          | 32        | 10.6  |
| Total        | 301       | 100   |
| Gender       |           |       |
| Male         | 251       | 83.3  |
| Female       | 50        | 16.7  |
| Total        | 301       | 100   |
| Age          |           |       |
| 20 -25       | 5         | 1.6   |
| 26 -30       | 71        | 23.6  |
| 31 -35       | 102       | 33.88 |
| 36 -40       | 41        | 13.6  |
| Over 40      | 82        | 27.2  |
| Total        | 301       | 100   |
| Experience   |           |       |
| 0-5          | 18        | 5.98  |
| 06-Oct       | 57        | 18.94 |
| Nov-15       | 65        | 21.59 |
| 16-20        | 67        | 22.26 |
| Over 21      | 94        | 31.23 |
| Total        | 301       | 100   |
| Over 40      | 82        | 27.2  |

|                               |     |       |
|-------------------------------|-----|-------|
| Total                         | 301 | 100   |
| Highest level of education    |     |       |
| High school                   | 9   | 2.9   |
| Diploma                       | 36  | 11.95 |
| Bachelor                      | 171 | 56.8  |
| Master                        | 75  | 24.9  |
| Doctorate                     | 21  | 6.9   |
| Others                        | 11  | 3.4   |
| Total                         | 301 | 100   |
| Specialization                |     |       |
| Administrative                | 154 | 51.1  |
| Technical                     | 147 | 48.8  |
| Total                         | 301 | 100   |
| Length of time in this office |     |       |
| less than one year            | 55  | 18.2  |
| 01-May                        | 131 | 43.5  |
| 06-Oct                        | 96  | 31.9  |
| More than 10                  | 19  | 6.3   |
| Total                         | 301 | 100   |
| Work in the company           |     |       |
| 01-May                        | 38  | 12.6  |
| 06-Oct                        | 81  | 26.9  |
| More than 10                  | 182 | 60.5  |
| Total                         | 301 | 100   |

Table 3: Frequency of respondents.

### Measurement model

In the current study, SEM was used to test the measurement and structural model for the current study using AMOS 21 software. As a required step for testing the relationship of the manifest item with their respective latent constructs, confirmatory factor analysis was conducted as recommended by Hair et al. [115]. The results indicated that all the values are within the acceptable ranges except the standard errors [116]. The researcher tested measurement model in two stages. In the first stage, all measurement models were investigated individually with the latent constructs of recruitment and selection, training and development, compensation and rewards, performance appraisal and organizational performance. Results suggested that items SQ1 and SQ2 showed low factor loading. Thus, these factors were removed from the analysis. Model fitness was also unsatisfactory at initial stage. However, researcher correlated all error terms having modification index values higher than 25 to get a good model fit. Error terms e4 and e5, e6 and e7, e12 and e15, e16 and e17, e25 and e26 and e37 and e39 were correlated to get model fit. In the next stage, all measurement models were tested together to check the model fitness

and validity and reliability issues. Results showed adequate improvements in model fit values with  $df=560$ , Chi square for this model is  $\chi^2=1349.204$ ,  $\chi^2/df=2.409$ ,  $GFI=0.902$ ,  $RMR=0.067$ ,  $TLI=0.882$ ,  $AGFI=0.865$ ,  $RMSEA=0.069$  and  $CFI=0.895$ , show fitness of the model as shown in Table 4.

### Convergent validity

Convergent validity refers to the amount of shared variation among items of the same constructs [117-119]. It is also the amount of correlation among the items of a construct. Convergent validity of the construct can be assessed using average variance extracted, item loadings and composite reliabilities of the construct. The AVE is the percentage of variation explained by the items in a construct. AVE refers to “the sum of square of standardized factor loadings to represent how much variation in each item is explained by latent” [115]. The threshold value of AVE is above .50. The value of AVE for RS was 0.678, for TD 0.537, for CR 0.567, for PA 0.585, innovation 0.587, growth 0.533 and for service quality 0.676. These values indicated that all the constructs have average variance extraction more than 0.50 which indicates all the constructs have adequate convergent validity. Table 3 shows the value of composite reliability for each construct involved in the current study. As mentioned by [117,120], the threshold value of the composite reliability is above .70. Table 4 shows that all the constructs have sufficient reliability ranging from .

756 to .928. Therefore, the current study does not violate the convergent validity of the constructs.

| Constructs                | CR    | AVE   |
|---------------------------|-------|-------|
| Recruitment and selection | 0.913 | 0.678 |
| Training and development  | 0.853 | 0.537 |
| Compensation and rewards  | 0.867 | 0.567 |
| Performance appraisal     | 0.876 | 0.585 |
| Innovation                | 0.756 | 0.587 |
| Growth                    | 0.774 | 0.533 |
| Service quality           | 0.861 | 0.676 |

Table 4: Convergent validity analysis.

### Discriminant validity

Criterion to assess the discriminant validity is that the square root of the average variance extraction should be higher than all inter construct correlations of the respective construct. Table 5 represents the squared inter-construct correlation of each variable and average variance extraction.

| Variables                 | RS     | TD     | CR     | PA     | Innovation | Growth | SQ     |
|---------------------------|--------|--------|--------|--------|------------|--------|--------|
| Recruitment and selection | 0.823* |        |        |        |            |        |        |
| Training and development  | 0.679  | 0.733* |        |        |            |        |        |
| Compensation and rewards  | 0.685  | 0.662  | 0.753* |        |            |        |        |
| Performance appraisal     | 0.719  | 0.644  | 0.619  | 0.765* |            |        |        |
| Innovation                | -0.214 | -0.333 | -0.238 | -0.245 | 0.766*     |        |        |
| Growth                    | 0.56   | 0.614  | 0.675  | 0.728  | -0.288     | 0.730* |        |
| Service quality           | 0.577  | 0.615  | 0.508  | 0.601  | -0.228     | 0.646  | 0.822* |

\*Diagonal show the square root of AVE.

Table 5: Discriminant validity analysis.

Results indicate that all the constructs have adequate discriminant validity as the square root of average variance extracted is greater than the inter-construct correlation of each variable and the values of inter construct are less than .85. It means results provide sufficient evidence of discriminant validity of the constructs.

### Hypothesis testing

Figure 2 presents the relationship of SHRM practices and organizational performance examine whether there is a statistically significant relationship or not. The results show significant model fit Chi square for this model is  $\chi^2=2935.067$ ,  $df=1064$ ,  $RMR=0.044$  it must be near to 0,  $GFI=0.92$  less than 1 shows a good fit,  $AGFI=0.850$  close to 1 shows a perfect fit,  $TLI=0.929$  which is near to 1,  $CFI=0.936$  is also near to 1 shows perfect fit,  $RMSEA=0.047$  from 0.05 to 0.08 shows modesty in model. First hypothesis states that H1: Strategic recruitment and selection practices are positively related to firm

performance. Table 6 shows that path H1: Recruitment and selection→organizational Performance having standardized path coefficient 0.12, standard error of 0.037, unstandardized estimate is 0.099 and critical ratio was reported as 2.663 with p value 0.008, which is less than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H1 was accepted. The study established a direct relationship between strategic recruitment and selection practices and firm performance.

Second hypothesis states that H2: strategic training and development practices have a significant positive relationship with organizational performance. Table 6 shows that path training and development→Organizational performance having standardized path coefficient .23, standard error of 0.168, unstandardized estimate is 0.224 and critical ratio was reported as .048 with p value 0.000, which is less than 0.05.

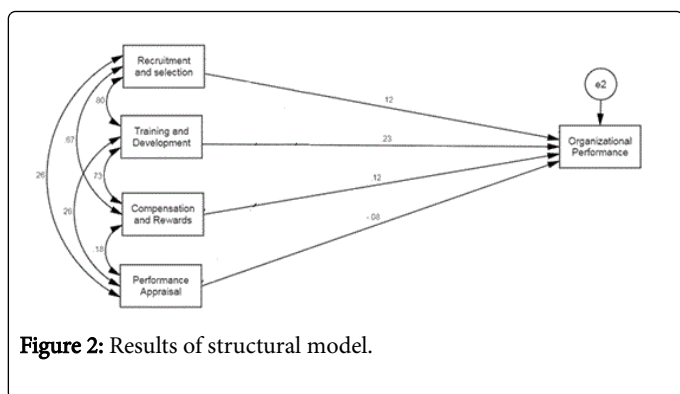


Figure 2: Results of structural model.

This provides enough evidence to accept the research hypothesis. Thus, H2 was accepted. The study establishes a direct relationship between Strategic Training and development practices and organizational performance.

Third hypothesis states that H3: strategic compensation and rewards management have a significant relationship with organizational performance. Table 6 shows that path H3: Compensation and Rewards→Performance having standardized path coefficient 0.12, standard error of 0.103, unstandardized estimate is .093 and critical ratio was reported as 2.803 with p value 0.033, which is less than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H3 was accepted. The Study established direct relationship between Strategic Compensation and rewards management and organizational performance.

Fourth hypothesis states that H4: performance appraisal system has a significant relationship with organizational performance. 6 shows that path H4: Performance Appraisal→Performance having standardized path coefficient -0.08, standard error of .042, unstandardized estimate is -0.123 and critical ratio was reported as -3.041 with p value 0.002, which is less than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H4 was accepted. The Study establishes a negative relationship between performance appraisal system and organizational performance.

| Path  | Estimate | S.E.  | C.R.   | P     | Label                                |
|-------|----------|-------|--------|-------|--------------------------------------|
| RS→OP | 0.099    | 0.037 | 2.663  | 0.008 | Significant                          |
| TD→OP | 0.224    | 0.048 | 4.675  | ***   | Significant                          |
| CR→OP | 0.093    | 0.033 | 2.803  | 0.005 | Significant                          |
| PA→OP | -0.127   | 0.042 | -3.041 | 0.002 | Significant relationship<br>negative |

Table 6: Hypothesis results.

## Conclusion

There were four major SHRM practices identified for this study. These SHRM practices are strategic recruitment and selection, training and development, compensation and rewards and strategic performance appraisal. Results indicated strategic recruitment and selection practices positively influence organizational performance. Results of the study are in line with the findings of the Buller and McEvoy [121], and Sheehan [122]. Sheehan [122] argued that the strategic approach to employee recruitment and selection enhances the

organizational performance in long run, although it required higher financial implication in early stages of the process. Theories of strategic management have historically acknowledged the importance of strategic recruitment and selection as potentially important sources of competitive advantage. Similar, in the Iraqi oil and gas companies, the strategic recruitment and selection process can bring competitive advantage for them. The process needs to be focused on the hiring of skilled workforce that is strategically fit in the organizational vision. Also, from the resource based view theory perspective the hiring process directly influence the organizational resources capability in long run. Thus, the strategic recruitment and selection is an important SHRM practice to enhance organizational performance.

Research findings indicated strategic training and development practices positively influence organizational performance. Results of the study are in line with the findings of the Meta-analysis of Jiang et al. [123] and Salas et al. [124]. Strategic training and development practices are designed to ensure appropriately skilled employees enhancement of the employees. Researchers taking on this perspective often invoke human capital theory and the resource based view of the firm. Human capital theory emphasizes that human capital-the composition of employee skills, knowledge, and abilities-is a central driver of organizational performance when the return on investment in human capital exceeds labor costs [125-127]. Effective management of the strategic training of human capital is an important key to organizational success. For example, Delaney et al. found that effective practices by organizations related to training were positively related to perceived organizational performance, whereas in a study of nearly 1,000 companies, Huselid [22] documented that the use of high-performance work practices (including effective recruitment and selection, compensation systems, and training) predicted employee retention and performance as well as long-term measures of corporate financial performance. In the same vein, the strategic training and development is important for the Iraqi oil and gas companies. Due to lack of appropriate training, the employee's skills development left behind the demands of the competitive work environment that result into lower organizational performance.

Results indicated strategic compensation and rewards practices positively influence organizational performance. Results of the study are in line with the findings of Larkin et al. [128] and Gerhart and Fang [129]. Strategic compensation and reward is a critical component of organizational strategy, influencing firm performance by motivating employee effort and by attracting and retaining high ability employees. Strategic compensation and reward is the largest single cost for the average company [130], with employee wages accounting for 60 to 95 percent of average company costs excluding a firm's physical cost of goods sold [128]. The impact of executive compensation on firm strategy is undeniable Dalton and Wowak [131], given the importance of attracting top executive talent and financially motivating strong effort and profitable choices. Furthermore, employee compensation is intimately tied to firm decisions regarding technology, diversification, market position, and human capital [132,133] and has widespread implications for organizational performance [134]. This scenario can also explain the current situation in Iraqi oil and gas sector. Strategic integration of the compensation and rewards plan not only influence the employee motivation but also other potential decision regarding technology and production influenced by this. Lacking in the strategic approach to the compensation and rewards practices at Iraqi oil and gas sector will not result into lower the employee motivation but also organizational performance. It is essential for the company owners to focus on strategic approach to the rewards systems.



The results of this study indicated a negative relationship between the performance appraisal and organizational performance in the scenario of Iraqi oil and gas companies. The possible reason for these results may be the performance appraisal practices in the Iraqi oil and gas sector are not based on the performance criteria. The political and organizational influence to change the performance appraisal practices may cause the negativity in the results. People often perceive that the performance appraisal is based on other criteria than the performance itself.

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