

OPTIMIZING PERFORMANCE THROUGH HR FORMALIZATION AND LINE MANAGER INVOLVEMENT

Zuzana Skorková

Bratislava University of Economics and Business, Bratislava, Slovakia

Email: zuzana.skorkova@euba.sk

Hana Gažová-Adamková

Bratislava University of Economics and Business, Bratislava, Slovakia

Email: hana.gazova@euba.sk

Branislav Zagoršek

PitchBatch s. r. o., Bratislava, Slovakia

Email: brano@pitchbatch.com

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ABSTRACT

The objective of our study was to examine the extent to which formalization of HR processes can influence organizational performance. This relationship was examined through the mediating effect of line managers' involvement in HR decision-making processes. To examine this relationship, structural equation modeling was conducted in Stata and R using the Lavaan package. The research was conducted on a sample of 3,502 medium-sized and large companies from the CRANET database. The results of our analysis confirmed the mediating effect of decentralizing HR decision-making authority to line managers on the positive relationship between HR process formalization and organizational performance. We point out that an appropriate level of formalization, where boundaries are set, but line managers are given a certain degree of freedom, positively affects company performance. Our results suggest that formalized HR policies provide a structured framework that ensures consistency and fairness across the organization, thereby increasing trust and compliance. Decentralizing decision-making power to line managers increases their ability to respond to emerging problems, thereby improving the effectiveness of HR interventions. Our findings demonstrate that organizations should design HR systems that combine clear formalized rules with sufficient autonomy for line managers to adapt HR practices to specific situations. The study contributes to the existing literature by empirically demonstrating the mediating role of line managers' involvement in the relationship between HR process formalization and organizational performance.

KEYWORDS: CRANET; formalization; human resource management; line managers; performance.

JEL CLASSIFICATION: M12, M52, M54

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INTRODUCTION

Every organization has its own management system, based on a set of rules – legislative, organizational, and methodological – that dictate the desired behavior of its members. Rules and norms within a company shape the actions and behaviors of individuals, including owners, managers, and employees. Internal norms also represent a form of corporate culture, regulate relationships among employees, and are essential when resolving disputes.

Formalization is the extent to which work activities are formally defined by rules, procedures, instructions, and communication channels, regulated through written documentation, such as procedural manuals or workplace guidelines (Adler et al., 1999; Jansen et al., 2006; Mom et al., 2009). Since formalized procedures emphasize adherence to rules and processes and create patterns for regulating

employee behavior in alignment with organizational processes (Eva et al., 2019), formalization is essential for every organizational function, including Human Resource Management (HRM). Several studies (Burton et al., 2020; Child, 2015) have examined the relationship between the degree of formalization and firm performance. The literature presents varied (and sometimes contradictory) results. Some studies indicate a positive relationship between the level of formalization and performance (Belsito & Reutzel, 2019; Ingvaldsen & Engesbak, 2020; Iranmanesh et al., 2021), while in others we can find a negative impact (Hofstede et al., 2010; Jacobsen & Jakobsen, 2018; Sherf et al., 2019).

A crucial component of strategic business management is strategic HRM. This one contributes to organizational performance through its formal practices (Cloutier & Robert-Huot, 2021; Jiang et al., 2013; Rozsa et al., 2019). HRM, as a complex communication system, signals critical information to employees about strategic HR goals and behavioral expectations (Hauff et al., 2017), thereby influencing HR outcomes through formalized HRM tools. These tools include personal cost control, which may depend on the type of employment contract, collective or individual wage agreements, or other labor relations (Lepak et al., 2006). Line managers play a significant role in this process. They require well-designed HR procedures to use in their people management activities to motivate and reward employees, address performance issues, and meet workers' needs (Hartog & Boon, 2012). In this context, Purcell & Hutchinson (2007) argue that since line managers are involved in HR practices, they should be included in models linking HRM to performance.

Delegating HRM responsibilities to line managers outside the HR department is considered a key feature distinguishing HRM from traditional personnel administration. This is particularly relevant in strategic HRM, which aims to align people management with organizational goals (Brewster et al., 2015). Line managers often serve as the primary source of employees' direct experience with organizational HR practices, yet their critical role in delivering HR practices is often overlooked (Kehoe & Han, 2020). Therefore, it is essential to examine the extent to which HR processes should be formalized and the degree to which decision-making authority should be delegated to line managers.

Since the impact of formalization on performance remains largely unclear in many studies, our research aimed to determine how the formalization of HR processes affects organizational performance and whether this relationship is influenced by the empowerment of line managers in the HR decision-making process.

The remainder of the paper is structured as follows: the next section outlines the theoretical bases of the study, followed by the methodological bases and data description; the subsequent section presents the results, which are then discussed in relation to existing literature, and the paper concludes with concluding remarks, implications, and research limitations.

1 THEORETICAL BASES

1.1 Formalization

Formalization refers to the rules, regulations, procedures, and other written documents that organizations develop to support and coordinate diverse, complex tasks by regulating behavior. Mintzberg (1978) argues that organizations formalize employee behavior to limit its variability, thereby enabling greater predictability and control. Formalization simplifies the coordination of activities and ensures order, which, according to Mintzberg, "warms the hearts of people who see things orderly – everyone in his proper box on the organization chart, all work processes predetermined, all contingencies accounted for, everyone in white."

Different theorists characterize formalization in various ways. Weber (1947) defined it as a means of regulating activities within an organization through formal rules, where, in his concept of bureaucracy, true authority lies in regulations. On the other hand, Organ & Greene (1981) describe formalization as a method of controlling individual activities through rules and procedures. The definition provided by Armandi & Mills (1985) differs significantly, defining formalization as the degree of standardization of individual tasks within a company. Narrowing the perception of formalization to merely a set of organizational rules would be overly simplistic (Walsh & Dewar, 1987). As Chen & Rainey (2014) points out, formalization refers to the extent to which rules and procedures in an organization are not only clearly written and formally established but also adhered to in the execution of activities. A high degree of formalization is reflected in the precise definition and thorough description of tasks, respect for authority, promotion of written communication, and a strong emphasis on norms, sanctions, and procedures (Hall et al., 1967).

From a formalization perspective, two extremes can be identified (Burton et al., 2020). On the one hand, there are organizations where every work activity has a clearly defined written procedure specifying what tasks should be performed and how, and delineating responsibilities and accountability. Bureaucratic organizations are typically characterized by a high degree of formalization (Child, 2015). Conversely, there are organizations with no formalization whatsoever. These are defined as informal, highly unstable entities in which no official rules or procedures exist. Formalization contributes to system stability and simplifies coordination and control. Employees know precisely what tasks to perform and how to carry them out. From a management perspective, it is undoubtedly easier to organize, coordinate, and control a highly formalized system than an organization without any official rules (Burton et al., 2020).

Negative aspects of formalization have often been criticized in the context of bureaucracy, which is inherently built on formalization. Numerous studies have highlighted that bureaucracy hinders development and is at odds with innovation (Cochran, 2017; Kolkitchaiwan & Chantuk, 2018; Radojevic et al., 2016; Sherf et al., 2019). High levels of formalization are also criticized because they shift employees' focus from outcomes to strict adherence to formal procedures, making the process itself more important than the results of the activity (Hofstede et al., 2010). Many employees remain unaware of their organization's strategy or the added value their products or services offer to clients. Instead, they fixate solely on the process's correctness, regardless of the circumstances. However, we agree with Jacobsen & Jakobsen (2018), who argue that it is not formalization itself, but rather resistance to formalization and the belief in its detrimental effects that can pose a barrier to an organization. Recent studies (Iranmanesh et al., 2021) highlight that formalization and specialization positively influence a firm's innovative capabilities. The literature provides numerous examples of the positive impacts of formalization on organizations. For instance, Belsito & Reutzel (2019) found that the formalization of performance appraisals positively affects changes in trust in leadership. Their study also suggests that employees' perceptions of the utility, procedural justice, and satisfaction with the performance appraisal process are positively related to changes in trust in leadership. Furthermore, these effects are mediated by employee satisfaction with the performance appraisal process. The necessity of formalization and the application of additional rational bureaucratic principles is supported by Ingvaldsen & Engesbak (2020), who argue that modern products and production systems embody deeper and more diverse knowledge, which increasingly requires collaborative development. To integrate this knowledge within a learning organization, an appropriate level of formalization, centralization, and specialization is essential. Formalization also leads to higher levels of employee satisfaction (Lambert et al., 2006). Similarly, Zamir and Kim (2022) showed that formalized processes, for example, in knowledge sharing, improve efficiency and increase satisfaction. This suggests that formalizing HR processes can enhance predictability, coordination, and employee satisfaction, thereby contributing to higher organizational performance. The importance of a balanced level of formalization is further emphasized by Wasowska et al. (2018), who argue that formalizing business processes, particularly decision-making, positively contributes to entrepreneurial orientation and its resulting outcomes. Their findings align with earlier studies that

demonstrated how rules, regulations, and procedures reduce ambiguity (Jakobsen & Mortensen, 2016) and enable employees to achieve organizational goals. Some studies even suggest that it is not formalization itself, but employees' perceptions of it, that matter most (Gügerçin, 2020). When employees view formalization as a tool for establishing norms, providing clarity, and addressing ambiguity, it can have a motivational effect. Moreover, formalization positively impacts employee well-being by enhancing value creation and reducing the financial burden associated with corruption (Do & Van Vu, 2021).

1.2 Formalization and performance

The impact of formalization on firm performance remains ambiguous. The results of some studies (Kaufman et al., 2021; López et al., 2019) suggest that the adoption of formal performance evaluation and formal HRM functions positively contributes to the performance of established firms, facilitating the flow of routine tasks. At the same time, the degree and form of formalization of HR processes are not universal but may vary depending on the organization's size and the nature of its internal processes (Metzker & Zvaríková, 2021). There are also opinions (Flamholtz, 1990; Markman & Gartner, 2002) that paradoxically, firm growth, such as the creation of new jobs, increased productivity, and innovations, can threaten the firm's performance by weakening the decision-making process and the ability of managers to control the functioning of the entire organization, leading to increased centralized pressure on formalized procedures. To manage such situations, some authors (Barrett & Mayson, 2007; Kotey & Slade, 2005) recommend adopting formal managerial practices and allowing decision-making by line managers, especially in HRM.

The relationship between formalization and performance has been explored in several studies, such as Stuart & Prawitt (2012), who found that performance depends on the interaction between task complexity and the degree of formalization within a company. The authors argue that the use of less formalized processes provides employees with greater opportunities to learn basic concepts and apply their own judgment. Research shows a positive correlation between the effectiveness of business activities and the degree of formalization (Basol & Dogerlioglu, 2014). According to Floridi et al. (2022), studies published from 2011 to 2021 provide 1,372 estimates of performance and business practices: 40 percent show significant positive effects, and 54 percent show insignificant effects of formalization on performance.

For our study, we focused on formalizing HR processes. HR is considered a critical success factor in implementing policies and procedures and improving long-term performance (Koç et al., 2024; Egerová et al., 2021). Additionally, top management contributes to organizational competitiveness by effectively utilizing human and organizational resources (Mousa & Othman, 2020). Particularly interesting in the context of HR is the study by Chen & Rainey (2014), who focused on the formalization of HR processes, arguing that personnel formalization results in high-performance work practices, particularly in teamwork, by ensuring organizations attract the right employees and provide them with various protections such as worker safety, procedural justice, and conflict resolution. Formalization has a positive impact on employee well-being, including improving added value and reducing the amount companies spend on bribes (Do & Van Vu, 2021).

A key finding from our research comes from Hempel et al. (2012), who argue that the formalization of organizational processes reduces uncertainty, while the formalization of jobs and roles mitigates the effects of decentralization and reduces team empowerment by limiting teams' flexibility in leveraging the advantages of decentralization. These findings highlight the importance of organizational structure as a precursor to empowerment and emphasize the conflicting effects of different types of formalization.

Based on these theoretical findings, we formulate the following hypothesis:

H1: Formalization of HR processes positively influences business performance.

1.3 Decentralized decision-making to line managers

The delegation of responsibility in HR to line managers is a characteristic feature of modern HRM (Elorza et al., 2022; Kurdi-Nakra et al., 2022). Their successful involvement in HR processes in the enterprise is considered important for several reasons (Brandl et al., 2009; Puçetaité et al., 2015). High-quality managerial engagement can liberate managers from routine operational work (Cunningham & Hyman, 1999) and allow them to focus on strategic HR work. Managerial responsibility for HR duties encourages managers to respond more directly in the decision-making process (Whittaker & Marchington, 2003). Some decentralization and flexibility in processes allow line managers to integrate the operational side of people management into daily routines (Larsen & Brewster, 2003), thereby highlighting a practical approach to people management within organizational regulations (Pak & Kim, 2018). Involving line managers in HR decision-making fosters their commitment, which is a key prerequisite for effectively influencing corporate strategy (Arthur, 1994; Pak, 2022).

Currently, numerous studies focus on line managers, which can be divided into two areas (Townsend et al., 2022): the theories of social exchange (Blau, 1964), providing a framework in micro-level studies examining the relationship between line managers and employees, and the HRM and Strategic Human Resource Management (SHRM) literature. In the second category, studies assess the impact of centralization and decentralization on line managers' work (Brewster et al., 2015).

The transfer of HRM tasks to middle managers entails shifting HR functions traditionally handled by specialists to these managers (Hoogendoorn & Brewster, 1992). While some attribute this shift to the HRM movement, Armstrong (1998) argues that it is not solely driven by this approach, despite the increasing responsibilities of line managers in personnel decisions and resource management. According to Cascón-Pereira & Valverde (2014), the transfer of HRM to middle managers is likely multifaceted, identifying four dimensions:

- Task implementation: which includes delegating various HR areas.
- Decision-making authority: involving control over managed resources.
- Financial control: including budget management.
- Knowledge: encompassing necessary information and training for delegated responsibilities.

Several authors emphasize the need for a more comprehensive examination of the decentralization of human resource management processes to line managers. They argue that it is important to identify specifically what should and should not be decentralized, and to what extent. For example, Yusoff et al. (2008) note that decentralization depends on the degree of empowerment or decision-making authority granted to line managers. Kinnie (1990) further argues that decentralization involves transferring authority to middle management, but this authority must include the ability to make financial decisions. Colling & Ferner (1992) comment that if budget responsibilities are not transferred along with personnel responsibilities, middle management has not been given genuine responsibility but rather just an additional burden.

Although it might seem that formalization and decentralization are incompatible, the opposite is true. In fact, a study by Ruiz Moreno et al. (2011) shows that a certain degree of formalization and decentralization creates a work environment that supports innovation and allows service firms to better adapt to their environment. Similar findings and the importance of formalization and decentralization in corporate environmental behavior are highlighted by Lopez-Gamero et al. (2016). More recent research in knowledge management also emphasizes that combining the formalization of procedures with the relaxation of bureaucratic rules is crucial to supporting innovation (Hamitouche et al., 2024). Research by Pérez-Valls et al. (2019) analyzed the relationship between the main dimensions of organizational structure (formalization, decentralization, and complexity) and environmental responsiveness in a sample of 109 firms in the European air passenger transport industry, finding that high formalization of routine

tasks and structures with high decentralization and low complexity significantly support environmental responsiveness. The work by Armando Marin-Idarraga & Losada Campos (2015) also shows that both formalization and decentralization promote information exchange. A study by Thibodeaux & Faden (1994) confirmed that the development of heterogeneous self-managed work teams relies on an organic organizational structure. This one emphasizes formalization, socialization, training, and empowerment/decentralization, while utilizing effective communication, shared values, and trust.

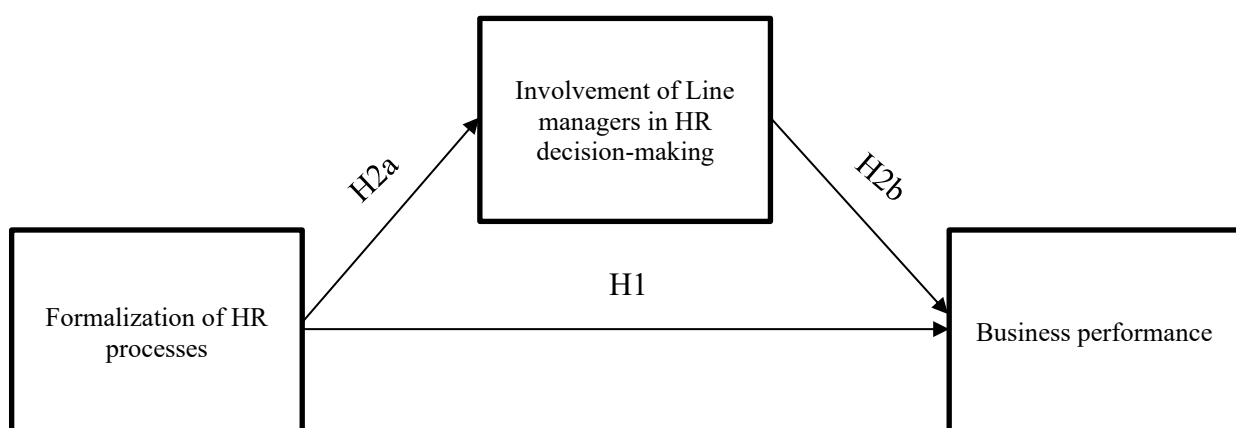
Therefore, we also assume that the formalization of organizational HR processes should be centralized and unified, thus creating a foundational framework for the company's operations. On the other hand, it is necessary to create only "frameworks" while delegating as much decision-making authority as possible to line managers. Research also shows that differences in managers' perspectives (e.g., by generation or the degree of decision-making centralization) influence the effectiveness of HR processes. The combination of clear formal frameworks and decentralized autonomy supports organizational flexibility and adaptability (Petráková et al., 2021; Hamitouche et al., 2024). Line managers are often the primary point of contact for employees regarding the organization's personnel procedures, yet their critical role in the HR practice delivery process is often overlooked (Kehoe & Han, 2020). Assigning responsibility for human resource management (HRM) to line managers outside the HRM department is considered a key distinction that sets HRM apart from traditional personnel administration and is particularly important in strategic HRM, which seeks to align human management with organizational goals (Hempel et al., 2012).

Drawing on these findings and theoretical foundations, we developed the research model (see Figure 1) and formulated the following hypotheses:

H2a: Formalization of HR processes positively influences the involvement of line managers in decision-making on HR issues.

H2b: Involvement of line managers in decision-making on HR issues positively influences business performance.

Figure 1 Research model



(Source: own elaboration)

Based on our literature review, we conclude that there is a significant research gap, particularly regarding the unclear results on the impact of formalization on performance, and that research on the context-specific effects of HR formalization is limited. The general benefits of formalized HR processes are well documented, but their specific effects when mediated by line managers' involvement in HR decision-making remain unclear from current studies. Our research aims to fill this gap by focusing on the context-

specific effects of HR formalization and the unique contributions of line managers in enhancing firm performance.

To ensure full methodological transparency, we formulated statistical hypotheses for each structural relationship in our model. For every directional hypothesis (H1, H2a, H2b), the null hypothesis (H0) states that the corresponding path coefficient is equal to zero, indicating no effect ($\beta = 0$). The alternative hypothesis (H1) specifies that the path coefficient is greater than zero ($\beta > 0$), consistent with the theoretically predicted positive relationships. For the mediation hypothesis (H2), the statistical null hypothesis states that the indirect effect of formalization on performance through line-manager involvement is zero, whereas the alternative hypothesis states that this indirect effect is positive and significantly different from zero.

2 METHODOLOGICAL BASES

Our analysis used data from the CRANET network. CRANET is a global network of business schools that conducts surveys in human resource management (HRM), examining policies and practices using a standardized set of questions. CRANET uses a rigorous methodology for its comprehensive international comparative survey, which includes systematic evaluation of questionnaire development, data collection, data set generation, and data analysis consultancy. The questionnaire was originally developed in 1989. It is regularly updated to maintain consistency and integrate new knowledge in the field of human resource management.

The questionnaire is designed in English. It is always appropriately translated into the country's language and emphasizes factual questions about human resource management practices. A questionnaire ensures objectivity and comparability of the results obtained. The questionnaire is sent to HR managers online. The average response rate is 25% per country.

This study is based on the largest and most comprehensive HRM data set, covering key processes such as recruitment, selection, compensation and benefits, career management, and performance appraisal. It also examines the organization of the HRM function, including aspects such as outsourcing, delegation to line management, and the use of technology to deliver HRM.

In our study, we use CRANET's international HRM survey data from the year 2022. The questionnaire covers 52 structured questions covering the following six sections:

- HRM activity in the organization
- Resourcing practices
- Employee development
- Compensation and benefits
- Employee relations and communication
- Organizational details

In addition, six questions capture basic personal information about the respondents.

Most questions used had the following format of closed questions:

- yes/no
- categorical choices
- a 4-5 point Likert-type scale.

The average response rate for the 2022 data collection was reported at 25%.

Our questionnaire covers 5,899 companies (with more than 150 employees) from 38 countries. The data were collected in 2022. After removing incomplete responses and responses from small businesses, we retained a sample of 3,502 companies from 35 countries for analysis. The research sample by country and number of companies is described in Table 1.

Table 1 Research sample by country and number of companies

Country	Companies	% of sample	Country	Companies	% of sample
Australia	41	1.17%	Latvia	11	0.31%
Austria	140	4.00%	Lithuania	75	2.14%
Belgium	44	1.26%	Mexico	75	2.14%
Bosnia	32	0.91%	Nepal	107	3.06%
Brazil	82	2.34%	Netherlands	95	2.71%
Canada	78	2.23%	Norway	82	2.34%
Croatia	70	2.00%	Poland	33	0.94%
Cyprus	32	0.91%	Romania	113	3.23%
Denmark	173	4.94%	Serbia	99	2.83%
Estonia	44	1.26%	Slovakia	85	2.43%
Finland	103	2.94%	Slovenia	70	2.00%
Germany	331	9.45%	Spain	161	4.60%
Greece	123	3.51%	Switzerland	98	2.80%
Hungary	109	3.11%	Turkey	78	2.23%
China	240	6.85%	UK	216	6.17%
Iceland	77	2.20%	USA	162	4.63%
Israel	91	2.60%	Uzbekistan	29	0.83%
Japan	103	2.94%			
			Total	3502	100%

(Source: Systematized by the authors based on CRANET research)

Formalization of HR Processes was measured in the following questions. The responses were limited to yes/no:

- Does your organization have a written personnel/HR strategy?
- Does your organization have a written HR recruitment strategy?
- Does your organization have a written HR training & development strategy?

The involvement of Line Managers in HR decision-making was investigated using the following questions. The respondents had to indicate whether the area is the responsibility of line managers or not:

- Who has primary responsibility for major policy decisions on pay and benefits?
- Who has primary responsibility for major policy decisions on recruitment and selection?
- Who has primary responsibility for major policy decisions on training and development?

Company performance was measured with three questions. There was a 5-point Likert scale used, where 1 = Poor or at the low end of the industry, 2 = Below Average, 3 = Average or equal to the competition, 4 = Better than average, and 5 = Superior:

- Rating of the level of productivity
- Rating of the rate of innovation
- Rating of environmental matters

We used a covariance-based structural equation modeling approach because it is well-suited for theory testing, provides global model-fit evaluation, and aligns with the confirmatory nature of our hypotheses. The large sample size and our use of reflective latent variables also meet the standard assumptions of covariance-based structural equation modeling, allowing us to validate the measurement model, evaluate factor loadings, and assess reliability before estimating the structural paths.

To conduct the Structural Equation Model analysis, we chose the Maximum Likelihood Estimator (Olsson et al., 2000) as our estimation method due to its favorable properties. Next, we employed the NLMINB algorithm (Gay, 1990) to optimize parameters. This allowed us to obtain robust parameter estimates. We utilized R with the Lavaan package (Rosseel, 2012), semTools (Jorgensen et al., 2022), and Stata software (StataCorp, 2023) to analyze the data.

4 RESULTS

To assess the model fit, we used indices recommended for CB-SEM evaluation (Fan et al., 1999; Hu & Bentler, 1999). We included the Chi-Square Test of model fit, Comparative Fit Index, Tucker-Lewis Index, Root Mean Square Error of Approximation, Standardized Root Mean Square Residuals, and Coefficient of Determination. This comprehensive approach allowed us to thoroughly evaluate the model fit. Additionally, we used Cronbach's alpha, Composite Reliability, Average Variance Extracted, and the magnitude and significance of path coefficients to further evaluate the model. Our measurement model description is included in Table 2.

Table 2 Measurement model description

Latent Construct	Item	Item description	Loading	Std. Error	z-value	p-value	CA	CR	AVE
Formalization of HR processes	s1v6c	Does your organization have a written personnel/HR strategy?	1	(fixed)	-	-	0.748	0.751	0.501
	s1v6d	Does your organization have a written HR recruitment strategy?	1.228	0.041	29.66	0.000			
	s1v6e	Does your organization have a written HR training & development strategy?	1.171	0.040	29.42	0.000			
Involvement of Line managers in HR decision-making	s1v8a	Who has primary responsibility for major policy decisions on pay and benefits?	1	(fixed)	-	-	0.744	0.746	0.505
	s1v8b	Who has primary responsibility for major policy decisions on recruitment and selection?	1.173	0.041	28.73	0.000			
	s1v8c	Who has primary responsibility for	1.115	0.039	28.93	0.000			

		major policy decisions on training and development?							
Business performance	s6v5b	Rating of level of productivity	1	(fixed)	-	-	0.686	0.693	0.430
	s6v5d	Rating of rate of innovation	1.361	0.057	23.81	0.000			
	s6v5f	Rating of environmental matters	1.031	0.043	24.01	0.000			

Note: CA- Cronbach's alpha, CR -McDonald's omega, AVE- Average variance extracted

(Source: Systematized by the authors based on CRANET research)

After assessing the goodness-of-fit indices, our model shows a good fit to the data, with the following results: $\chi^2 = 51.006$, $df = 24$, $p < 0.001$, CFI = 0.996, TLI = 0.994, RMSEA = 0.018, SRMR = 0.013, CD = 0.767. These results indicate an overall good fit, good residual fit, and strong explanatory power. Only the Chi-Square test ($p < 0.05$) results were not optimal; however, this is common with large samples.

Our model shows a significant impact of the formalization of HR processes on business performance ($\beta = 0.492$, $p < 0.001$), supporting our H1 hypothesis.

Our model demonstrates a significant impact of formalizing HR processes on line managers' involvement in HR decision-making ($\beta = 0.531$, $p < 0.001$), supporting our H2a hypothesis. Additionally, it shows a significant impact of line managers' involvement in HR decision-making on business performance ($\beta = 0.056$, $p = 0.010$), supporting our H2b hypothesis. Taken together, these indicate a weak but statistically significant mediation effect of line managers' involvement in HR decision-making on the relationship between the formalization of HR processes and business performance ($\beta = 0.030$, $p = 0.010$), supporting H2.

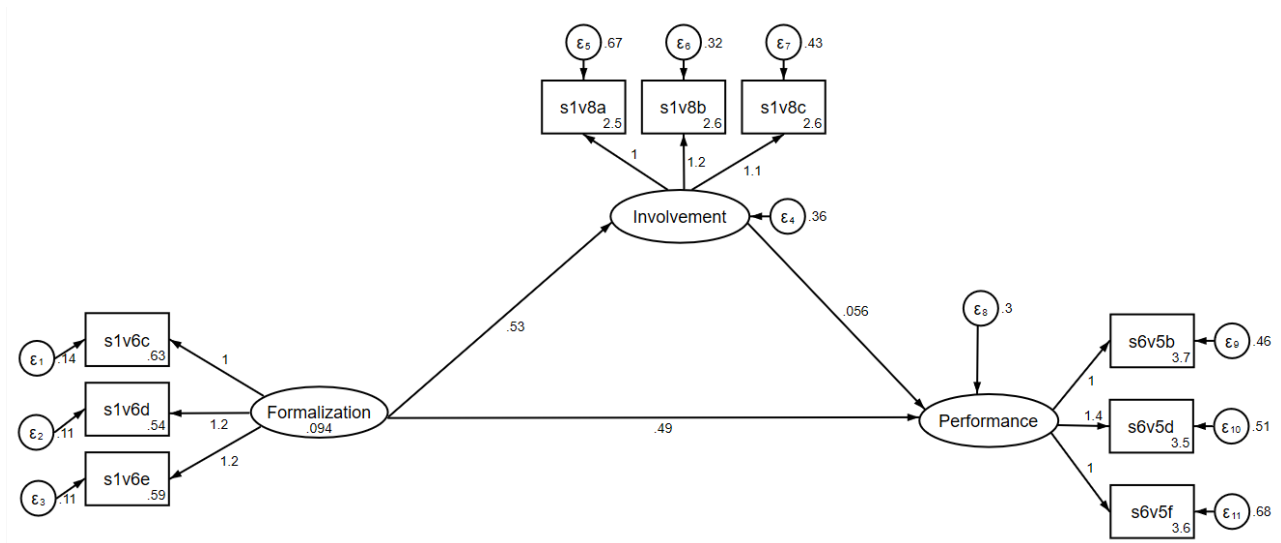
Overall, we found a significant total effect of formalization on business performance ($\beta = 0.522$, $p < 0.001$), illustrating how the formalization of HR processes can enhance business performance. Finally, given the paths from formalization of HR processes to the involvement of line managers in HR decision-making and from the involvement of line managers in HR decision-making to business performance, we confirmed the mediation effect of the involvement of line managers in HR decision-making, creating an indirect path of influence from formalization of HR processes to business performance. The results of our structural model are in Table 3. Figure 2 shows the path diagram.

Table 3 Structural model

Path	Hypothesis	Coefficient	Std. Error	z-value	p-value	Result
Formalization -> Performance	H1	0.492	0.047	10.44	0.000	Supported
Formalization -> Involvement	H2a	0.531	0.048	11.13	0.000	Supported
Involvement -> Performance	H2b	0.056	0.022	2.58	0.010	Supported
Formalization -> Involvement -> Performance	H2	0.030	0.012	2.56	0.010	Supported
Total Effect		0.522	0.045	11.48	0.000	Supported

(Source: Systematized by the authors based on CRANET research)

Figure 2 Path diagram



Note: The path diagram shows path coefficients, factor loadings, variance, and intercept.

(Source: Developed by the authors based on CRANET research)

5 DISCUSSION

The structural model of our study presents the interrelationships among three variables that form the theoretical model of a study focused on the impact of the degree of formalization of HR processes on organizational performance through the involvement of line managers in human resources decision-making.

We consider the current state of research on the impact of formalization on company performance to be ambiguous. We identified a group of authors who confirmed the positive effect of formalization on performance (Jakobsen & Mortensen, 2016; Kaufman et al., 2021; López et al., 2019; Wasowska et al., 2018) as well as higher employee satisfaction (Lambert et al., 2006), other studies suggest that centralization and formalized procedures can jeopardize performance (Flamholtz, 1990; Markman & Gartner, 2002) or hinder development and innovation in the company (Cochran, 2017; Kolkitchaiwan & Chantuk, 2018; Radojevic et al., 2016; Sherf et al., 2019).

The results of our study, specifically focused on the formalization of HR processes, clearly confirmed the positive impact of formalization of HR processes on performance we agreed with the authors (Basol & Dogerlioglu, 2014; Chen & Rainey, 2014; Koç et al., 2024), who similarly confirmed with their research that formalization of HR processes has a positive impact on improving long-term performance. In this regard, the authors (Barrett & Mayson, 2007; Kotey & Slade, 2005) recommend adopting formal management practices and allowing line managers to make decisions in people management. Formalized rules provide employees with a clear framework, clarify expectations, and create a sense of security. In addition, formally given rules also serve an arbitration function, strengthening the sense of security and fairness among employees and increasing job satisfaction (Chen & Rainey, 2014) and reducing uncertainty (Hempel et al., 2012).

The results of our study highlight the key role of strategic human resource management in achieving organizational success and performance by linking formalized HR processes with a degree of decentralization of decision-making authority to line managers in certain HR processes (Pay and Benefits,

Recruitment and Selection, Training and Development, Labor Relations). Although formalization and decentralization may seem incompatible, the research results indicate a beneficial impact of such a relationship. Findings on the effective relationship between formalization and decentralization are brought by the results of research by authors highlighting, for example, better adaptability in the environment and support for innovation (Lopez-Gamero et al., 2016; Ruiz Moreno et al., 2011), support for ecological response (Pérez-Valls et al., 2019), or mutual exchange of information (Armando Marin-Idarraga & Losada Campos, 2015).

Given that line managers are in daily direct contact with the current work situation and specific employees, there is room to delegate some HR decision-making powers to line managers within formalized HR processes, enabling them to be an active part of achieving the organization's goals. Our results also support the authors' claims (Arthur, 1994; Pak, 2022) that such involvement of line managers in corporate processes fosters commitment, an important prerequisite for effectively influencing corporate strategy. This engagement mechanism is also confirmed by Oteng and Ngo Henha Eyono (2024). They showed that formalized rules increase employees' commitment and support their active participation and motivation in organizational processes.

The perception of the connection between process formalization and decentralization of authority signals a shift from traditional to modern human resource management (Elorza et al., 2022; Kurdi-Nakra et al., 2022) and enables people management to align with organizational goals (Hempel et al., 2012). The result of such a connection is the liberation of managers from operational and routine tasks (Cunningham & Hyman, 1999), which allows them to focus on strategic HR tasks and encourages them to respond more quickly in decision-making processes (Whittaker & Marchington, 2003).

CONCLUSIONS

We conducted our research on a sample of 3,502 medium and large enterprises from the CRANET database. Its results confirm that decentralization of HR decision-making authority to line managers mediates the positive impact of formalizing HR processes on organizational performance. Based on the research results, we concluded that formalizing HR processes directly improves organizational performance. We conclude that formalizing and subsequently implementing structured and standardized HR processes contributes to better organizational outcomes. Based on these findings, we recommend that organizations formalize their HR processes to improve organizational performance. With standardized HR processes, companies achieve more consistent and effective management of their human resources, which leads to better results. Our study underscores the crucial importance of strategic HR management in achieving organizational success and offers valuable insights for professionals seeking to improve HR processes and enhance overall performance.

In addition to the direct impact of HR process formalization on business performance, we also identified a significant role for line managers in this process. The formalization of HR processes increases line managers' involvement in HR decision-making. This suggests that structured HR practices encourage and enable line managers to be more actively involved in HR decisions. The results underscore the critical role of line managers in HR decision-making. Empowering line managers in this way leads to more informed and effective HR decisions that are aligned with the operational needs of different departments. Furthermore, it has been shown that involvement of line managers in HR decision-making positively impacts business performance. This finding suggests that when line managers are more involved in HR decision-making, it leads to better business outcomes. HR professionals should be aware of the two pathways through which formalized HR processes affect business performance. We therefore suggest that organizations should not only focus on direct improvements through formalization but also foster an environment in which line managers are integral to HR decision-making. While it is essential to provide

line managers with decision-making freedom, this autonomy should be framed in the context of formalized and unified HR documents - that is, in the sense of freedom, but with its limits. These documents should set clear guidelines and boundaries to ensure that line managers understand the extent to which they can function effectively and the degree to which they are allowed to be autonomous. Formalization also tells them which boundaries they must not cross. This approach leads to a more holistic and effective way of managing human resources.

The conclusions emphasize that formalizing HR processes contributes to improved business performance, not only through their direct effects but also by reinforcing line managers' involvement in HR decision-making.

THEORETICAL AND PRACTICAL IMPLICATIONS OF THE RESEARCH

This section outlines the broader significance of our findings. We discuss their contributions to theory and their relevance to managerial practice.

Theoretical implications

The research confirmed the importance of human resource management (HRM) for organizational performance. We identified several key findings:

1. Mediating effect of line managers' involvement in decision-making: Line managers mediate the relationship between formalized HR processes and organizational performance. Their involvement in decision-making increases performance.
2. New contexts of HR formalization: Using data from 3,502 medium-sized and large enterprises, we provide empirical evidence on how HR formalization affects organizations differently in different contexts. We have shown that standardized HRM practices significantly contribute to business performance.
3. Dual Path Model: Our findings support the Dual Path Model. Formalized HR processes directly affect organizational performance and indirectly through increased involvement of line managers in HR decision-making. Our findings add to the existing literature by explaining the mechanisms through which formalized HR practices influence organizational success.
4. Strategic HR Management: Our study also highlights the strategic importance of HR management. We advocate for the formalization of HR processes.

Practical implications

1. Formalization of HR processes: Based on our results, we conclude that organizations should formalize their HR processes to improve business performance. With standardized procedures, managers can better support consistent and effective HR management, which leads to better organizational outcomes.
2. Empowerment of line managers: It is important to involve line managers in HR decision-making. This contributes to better organizational performance. Leaders need to think about how to strengthen the quality of these decisions, e.g., through appropriate training and workshops.
3. Structured autonomy: Line managers need autonomy, but it must operate within formalized HR frameworks. Based on formalized frameworks, managers understand the scope of their decision-making.
4. Holistic approach to HR management: Organizations should adopt a holistic approach that integrates formalized HR processes with the active involvement of line managers. Through this dual approach, managers promote sustainable HR practices and improve organizational performance.

In summary, our research highlights the strategic benefits of formalization of HR processes and involving line managers in the process of decision-making. These findings offer practical advice on how to improve HR practices and achieve sustainable organizational success.

RESEARCH LIMITATIONS

One of the main limitations of the study is the sample. It included 3,502 medium-sized and large companies from 35 countries. However, the representation of countries was not uniform. This makes it difficult to generalize the results, especially to small companies or companies from other regions. Different economic and cultural environments may influence the results in different ways. Future research should take these differences into account. This would improve the usefulness and reliability of the findings across different types of organizations.

RESEARCH ETHICS, INFORMED CONSENT, AND CONFLICT OF INTEREST STATEMENT

This study used anonymized secondary data from the 2022 CRANET international HRM survey and did not involve the authors' direct recruitment of human participants or collection of personal or sensitive data. Therefore, formal research ethics committee approval and separate informed consent for the present analysis were not required. Data collection and participant information and consent procedures were administered by the CRANET network and its participating national partners in accordance with their applicable institutional and national requirements. The authors declare no conflict of interest.

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BRIEF DESCRIPTION OF AUTHORS:

doc. Ing. Zuzana Skorková, PhD.

ORCID ID: <https://orcid.org/0000-0002-4828-2188>

Department of Management, Faculty of Business Management, Bratislava University of Economics and Business, Dolnozemska cesta 1, Bratislava, Slovakia. www.euba.sk

Email: zuzana.skorkova@euba.sk

Zuzana Skorková is an Associate Professor at the Department of Management, Faculty of Business Management, Bratislava University of Economics and Business. Her research focuses on strategic human resource management, organizational design, agile leadership, and post-bureaucratic organizations, with a particular interest in improving HR processes, leadership effectiveness, and organizational performance.

Mgr. Hana Gažová-Adamková, PhD.

ORCID ID: <https://orcid.org/0009-0009-5621-8897>

Department of Management, Faculty of Business Management, Bratislava University of Economics and Business, Dolnozemska cesta 1, Bratislava, Slovakia. www.euba.sk

Email: hana.gazova@euba.sk

Hana Gažová-Adamková is a faculty member at the Department of Management, Faculty of Business Management, Bratislava University of Economics and Business. She specializes in organizational behavior and managerial skill development, with research interests in leadership development, team dynamics, and enhancing managerial competencies in contemporary business environments.

Ing. Branislav Zagoršek, PhD.

ORCID ID: <https://orcid.org/0000-0003-3474-9442>

PitchBatch, s.r.o., Rustaveliho 4, Bratislava, Slovakia, www.pitchbatch.com

Email: brano@pitchbatch.com

Branislav Zagoršek is an independent business mentor and researcher actively engaged in the startup ecosystem. His work focuses on supporting early-stage ventures, fostering innovation, and co-developing sustainable business models. With extensive experience mentoring entrepreneurs, he helps bridge research insights and practical applications in the startup community.