The Effects of Firm Financialization on HRM:

How Financialization Affects the Design of Managerial Jobs

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Abstract

At the firm level, financialization entails an emphasis on short-term financial performance and increased engagement of non-financial firms in financial activities. Advancing knowledge on the effects of socio-political contexts on HRM, this paper explores how financialization affects a key HRM practice, i.e., job design. We contend that higher financialization, as reflected in greater recourse to external debt, greater recourse to shareholder loans instead of equity, and greater investments in financial assets, is associated with the design of managerial jobs confined in the sphere of execution, i.e., characterized by less authority over strategic decisions. We test our hypotheses on a unique dataset that merges fine-grained survey data on the delegation of authority over strategic decisions with secondary data on financialization for a sample of 219 Italian firms. The results, which reveal a negative relation between financialization and delegation, have interesting implications for HRM theory and practice.

Practitioner notes

What is currently known

- Financialization entails an increased focus on short-term financial performance and engagement of non-financial firms in financial activities.
- Becoming more financialized changes the nature of the firm and HRM practices.

What this paper adds

- Financialization influences the design of managerial jobs.
- Evidence of a negative relation between financialization and the delegation of decision authority to managers.

The implications for practitioners

- HR practitioners should be aware of the influences of firm financialization on their job design choices and provide applicants with realistic job previews.

- Educators and business schools should include financialization in their HRM educational programmes.
- Individuals looking for jobs should gather information about target firms' financialization.

Keywords: financialization, job design, delegation of decision authority, strategic decisions.

Introduction

Financialization refers to a complex set of interrelated processes through which finance has extended its influence into several aspects of social life (Davis & Kim, 2015). While the definition of financialization is highly debated (Sawyer, 2013; Van der Zwan, 2014), financialization *at the firm level* has two recurrent elements: (i) an increased orientation of firms towards *short-term financial performance*, rather than to long-term objectives such as growth or increasing market share (Lazonick & O'Sullivan, 2000), and (ii) an increased engagement of non-financial firms in financial activities, meaning that a large portion of their profits is generated through the *trade of assets and financial services* rather than the trade of products and non-financial services (Davis, 2016; Styhre, 2015).

Previous studies highlight that firms' HRM and employment relations practices are deeply influenced by political and economic contextual factors (Vincent et al., 2018). Among these, financialization is an important element (Dundon & Rafferty, 2018). Indeed, the short-term objectives of financialized firms and their inclination to make firm operations an easily tradable financial asset make long-term investments in human capital relating to firms' "classical" activities (i.e., R&D, production, sales) and the associated production-related knowledge of managers and employees useless when not dysfunctional (Appelbaum & Batt, 2014; Thompson & Cushen, 2020). As a result, the HRM and employment relations practices of financialized firms differ from those of other firms (for a review, see Batt, 2018).

From this perspective, a related aspect that has been neglected by research is the impact of firm financialization on *managerial job design*. This is an important gap. Job design is "a fundamental HRM activity", as "it refers to deciding on the actual job structure" (Foss et al., 2009, p. 873) and is closely related to a wide set of organization- and individual-level outcomes (Van den Broeck & Parker, 2017). In this study, we consider the link between firm financialization, as reflected in firms' preferential use of external (i.e., non-owner) debt and shareholder loans[1] rather than equity and increased reliance on financial rather than productive activities, and a crucial aspect of managerial job

[1] Shareholder loans consist in debt-like capital that owners provide to their firm on a temporary basis, in contrast to equity capital that is permanently committed to the firm. Indeed, firms have to reimburse shareholder loans at the demand of owners, but they cannot easily reimburse owner equity. Hence, from the owners' perspective, shareholder loans are a more flexible and short-term oriented form of financing than equity.

design – i.e., the *authority over strategic decisions* that firms grant to managers. Mainstream research, relying on progressive job design (e.g., the job characteristic model, Hackman & Oldham, 1980) or HRM models (e.g., high performance work practices, Posthuma et al., 2013), suggests that firms should design managerial jobs characterized by high levels of autonomy, with the aim of developing employee human capital and eliciting commitment. In contrast, starting from the classic delegation-related trade-off between loss of information and loss of control problems, we argue that financialized firms design "narrow" managerial jobs, i.e., characterized by limited authority over strategic decisions. This prediction is supported by an econometric study based on a unique dataset that merges fine-grained survey data on the allocation of authority over a set of 17 strategic decisions with secondary data on financialization from a sample of 219 Italian firms. Italy is a particularly interesting setting to study financialization due to the predominant presence of privately held firms.

The paper offers three contributions to current research: (i) it investigates the effects of financialization on privately held non-financial firms, a topic largely unexplored in the extant literature (Davis & Kim, 2015); (ii) it uses the lens of agency theory that – albeit extensively used in job design research – has not yet been used for theorizing how job design is affected by financialization; and (iii) it provides large-scale empirical evidence that reinforces the call for context-sensitive HRM theory and practice.

Literature review

The short-term objectives and financial orientation of financialized firms have a direct impact in the sphere of HRM (Harrington, 2016; Lapavitsas, 2011; van Loon, 2016). Indeed, the literature – which is sparse in the corporate governance, industrial relations, and HRM/organization fields – shows that financialized firms use five clusters of HRM and employment relation practices (Davis, 2016; Styhre, 2015), with the general aim of reducing firms' liabilities towards their workforce (Darlington & Rubery, 2015) and providing workers with non-firm-specific financial competencies (Clark, 2013).

First, financialized firms adopt employment relations practices that maximize flexibility. Accordingly, they resort more to professional employment and to business process outsourcing (Cushen & Thompson, 2016), make greater use of part-time and seasonal employees (Hanka, 1998;

Sharpe, 1994), are more likely to lay off workers (Appelbaum et al., 2014), and adjust employment more rapidly (Abe, 2002). Consequently, financialization depresses the size of the permanent workforce (Lin, 2016). Second, financialized firms invest less in HRM practices aimed at nurturing the firm-specific human capital of employees and eliciting their long-term commitment (Liu et al., 2014). Indeed, these firms select, train and promote employees for their financial competencies rather than for their production-related competences (Alvehus & Spicer, 2012). Third, financialized firms adopt specific compensation practices with the aim of pursuing the maximization of shareholder value "at the expense" of employees, as witnessed by the positive association between financialization and less generous funding of pension plans (Hanka, 1998), more stagnant wages (Palladino, 2020), and income inequality (Hyde et al., 2018). Fourth, financialization affects employee relations practices. Financialized firms indeed resort more to control-oriented HRM practices (Dundon & Rafferty, 2018; Thompson, 2011), treat their employees less fairly (Bae et al., 2011) and are more frequently associated with workplace bullying (Beale & Hoel, 2011). Finally, financialized firms develop less cooperative relations with unions (Batt, 2018), present lower union density (Dupuis et al., 2020; Kollmeyer & Peters, 2019), deploy significant resources to prevent unionization (Clark, 2013), and reduce the bargaining power of labour (Myers & Saretto, 2016).

Conceptual Background and Hypotheses

Conceptual background

While providing "initial empirical findings" on the impact of the private equity business model on a wide set of employment relations and HRM practices, Clark (2009) offers an interesting starting point for the exploration of the effects of financialization on job design. He advances the view that the "operational improvements [generated by this business model] flow from a reduction in managerial discretion" (Clark, 2009, p. 2043). To gain further insights into the influence of firm financialization on the design of managerial jobs, in our study, we model the firm as a principal-agent relation, where

the principal decides whether to retain authority over strategic decisions or to delegate them to the agent.[2]

We move from the classic argument proposed by agency theory (Hölmstrom, 1979; Jensen & Meckling, 1976) that the drawback of delegating authority over a focal decision to an agent is the agency cost generated by the principal's *loss of control* over that decision. If the agent has personal objectives that are not aligned with those of the principal and her/his behaviour is not fully observable, s/he may make decisions that are not coherent with the objectives of the principal. Incentives relying on the extrinsic (Prendergast, 1999) or intrinsic (Benabou & Tirole, 2003) motivations of the agent may alleviate but not solve the problem. Centralization of decision authority in the principal's hands eliminates agency costs.

Nevertheless, the delegation of decision authority has its own advantages. For the purpose of the present work, one important advantage relates to the elimination of the *loss of information* problems that centralization of decision authority would entail (Hayek, 1945; Jensen & Meckling, 1992). If the principal centralizes authority over a decision, s/he must communicate with the agent to acquire the information needed to make that decision. Noisy communication leads to loss of information, which is avoided by delegating decision authority to the well-informed agent. The agent can then fully leverage her/his specific knowledge and competencies pertinent to the focal decision, thus resulting in better decisions (Alonso & Matouschek, 2008; Dessein, 2002).

In the next section, we argue that financialization reduces both firms' incentives to nurture the firm-specific human capital of managers and employees and the incentives of these individuals to build their firm-specific human capital. In this way, in financialized firms, the information advantage agents enjoy over principals is reduced, as are the costs of the loss of information engendered by the centralization of decision authority. The tendency to centralize decision authority is reinforced by the

[2] Firms can be conceived of as a chain of principal-agent relationships, which reflect the firm's corporate hierarchy. This means that the individuals playing the roles of principal and agent change depending on the hierarchical level considered. For example, in the relationship between the board of directors and the CEO, the board of directors is the principal, reflecting the interests of the firm's owners, while the CEO is the agent. One step below in the hierarchy, the CEO is the principal, and the first-line managers are the agents.

greater difficulties financialized firms encounter in designing effective incentive systems that realign the personal objectives of managers and employees with those of their employers.

Hypotheses

In this section, we develop three hypotheses on how the level of *delegation of authority* over strategic decisions to managers is influenced by three dimensions of firm financialization (Davis, 2016) that are especially important for privately held firms, namely: the increased recourse to external debt; the increased use of shareholder loans, which substitute for equity; and the increase in firms' illiquid financial assets, which substitute for productive assets.[3]

The first dimension of financialization that we consider is the greater leverage generated by recourse to external debt. Firms with greater leverage are at higher risk of financial distress and are hence forced to "squeeze" operations and to focus effort and attention on increasing short-term returns (Dobbin & Jung, 2010). Indeed, while equity holders are compensated at the firm's discretion, firms must compensate debt holders independently of performance. Additionally, debt holders have precedence over equity holders in obtaining their remuneration. This means that highly leveraged firms need to generate enough cash to be able to compensate debt holders, regardless of (and, in several cases, at the expense of) future firm growth (Singh & Faircloth, 2005). The second dimension of financialization is the recourse to shareholder loans. Owners can finance their firm through equity capital that is committed on a permanent basis or through debt. Shareholder loans are not committed to the firm on a permanent basis because, at any time, owners can ask the firm to repay these loans unless repayment puts other liabilities at stake. Hence, the use of shareholder loans is an additional signal of the short-term objectives pursued by financialized firms. The third dimension of financialization is the ratio of firms' illiquid financial assets – which include leases, shares of other firms, government and

[3] A fourth possible dimension of firm financialization is owner rewards (Lin, 2016). Here, we do not consider owner rewards for reasons related to their measurement. Indeed, our empirical analysis focuses mainly on privately held firms. Owners of these firms "extract" their rewards through several mechanisms. In addition to dividends, these mechanisms include other forms of compensation, such as allowances for board attendance, higher salaries for managerial positions assigned to owners or transactions with related parties, which often have a more favourable fiscal treatment than dividends. Similarly, stock repurchases, another typical indicator of owner rewards, are a rarity among privately held companies.

other securities, commodity future contracts, and derivatives – in total assets. These assets substitute for productive assets such machinery, logistics facilities and technologies (Davis, 2016). If financial assets become more important than productive assets, strategic decisions related to their management become more important for firm performance, to the detriment of those related to the management of productive assets (Orhangazi, 2008; Stockhammer, 2004). These latter decisions are then shaped by their financial implications. This means that as the proportion of financial assets increases relative to productive assets, the most important aspects to be considered in making *all* decisions are financial aspects, which require financial competencies rather than productive competencies.

Firms with a high level of leverage and shareholder loans cannot afford to invest in risky, long-term oriented projects, even if these projects potentially have high (long-term) returns (Parsons & Titman, 2008). In the HRM realm, these firms abstain from investing in high-involvement HRM practices intended to nurture the firm-specific human capital of the workforce (e.g., through training, collaborative problem solving, and long-term oriented incentive systems, Liu et al., 2014). These practices may have long-term returns but absorb both financial resources and managerial effort and can ultimately be detrimental to short-term profitability.

In addition, the managers and employees of financialized firms are unlikely to have personal incentives to develop their firm-specific human capital. First, given the above-mentioned short-term orientation of their employers and associated training and development practices, their firm-specific competencies will not command a wage premium and will not lead to more rapid career progressions. Second, the flexible employment relations practices financialized firms use (e.g., Cushen & Thompson, 2016) expose their managers and employees to greater risk of losing their jobs. Hence, the firm-specific human capital of managers and employees would be of very limited worth in the labour market and would not help them find a better job elsewhere.[4]

Finally, with the increasing importance of financial assets, managers' knowledge related to the management of productive assets becomes less relevant, as firm performance depends more on

[4] "When you ask people to make an investment of human capital in your firm, you do not then do things – like raising the leverage ratio too high – that would needlessly put that investment at risk" (Myers et al., 1998, pp. 18-19).

financial knowledge. This type of knowledge generally resides in members of the board of directors or in a few top managers, such as the CEO and the CFO, while it is rare among line managers (Alvehus & Spicer, 2012).

In sum, managers (and employees) of financialized firms have less firm-specific human capital, and their "classical" production-related competencies are less useful (if not detrimental) to firm performance. Hence, the loss of information problems generated by the centralization of authority over strategic decisions are less important, which in turn leads to the design of managerial jobs deprived of authority over strategic decisions.

This tendency is reinforced by the difficulties financialized firms encounter in aligning the personal objectives of their managers (and employees) with their short-term performance objectives. Hence, the loss of control problems that delegation of authority over strategic decisions down the corporate hierarchy generally entails are more severe. While monetary incentives that link managers' compensation to firms' short-term profitability may effectively elicit effort from the CEO, making her/his actions congruent with financialized firms' objectives (Kornelakis & Gospel, 2018), they are unlikely to adequately motivate other managers (with the possible exception of the CFO). Firms' aggregate performance is a noisy measure of the individual performance of line managers, as it is jointly influenced by the contributions of many individuals (Downes & Choi, 2014). Moreover, the performance of financialized firms largely depends on their ability to manage financial assets and services, but identifying performance indicators that reliably reflect the individual line managers' financial ability is difficult (Kornelakis & Gospel, 2018). Hence, we propose the following hypotheses:

H1: The level of delegation of authority over strategic decisions to managers is negatively related to the share of external debt relative to total assets.

H2: The level of delegation of authority over strategic decisions to managers is negatively related to the ratio of shareholder loans to equity capital.

H3: The level of delegation of authority over strategic decisions to managers is negatively related to the share of illiquid financial assets relative to total assets.

Method

Data collection and sample

To study the relation between financialization and delegation of authority over strategic decisions, we use a unique dataset on Italian firms[5] that was created in two phases.

First, we administered a survey questionnaire to the CEOs of a sample of Italian firms to retrieve data on firm organization, including information on decision systems. The target population consisted of the 50,341 Italian non-financial firms that operated in the manufacturing and service industries and had at least 20 employees in 2013.[6] We extracted from this population a random sample of 6,108 firms, stratified by size (20 to 49, 50 to 249, 250 to 499, and 500 or more employees), industry (manufacturing or services), and geographical location (North, Centre and South). We found the name and personal contact information for a subsample of 3,899 CEOs to whom we sent the questionnaire by e-mail after a pilot test and a pre-test. In total, 241 usable questionnaires were returned, corresponding to a response rate of 6.2%, which is in line with similar studies (e.g., Garcés-Galdeano et al., 2017; van Doorn et al., 2017). To test the quality of the data, we performed several checks that confirmed the representativeness of the sample with respect to the initial population, the absence of non-response biases, and the reliability of CEOs' answers (for details, see Supporting Information A).

Second, we collected firms' balance sheet data from the Aida database managed by Bureau van Dijk to build variables reflecting firms' financialization. Because of missing data, the sample used to test our hypotheses consists of 219 firms.

Variables and measures

Dependent variables. The dependent variable *Delegation* measures the extent to which strategic decisions are delegated along the firm's hierarchy. The survey questionnaire was inspired by previous

[5] Although financialization was originally conceived as a key feature of the evolution of US capitalism, its diffusion in Europe has been extensively documented (e.g., McCann, 2014; Peters, 2011). For example, the ratio of financial investments relative to productive investments of Italian firms was 30% in 1992 and increased to 180% in 2012; accordingly, between 1974 and 2010, the profits made by non-financial firms through financial channels increased from 305 million to 4.3 billion euros (Salento & Masino, 2013). Similarly, corporate debts increased from 81% of GDP in 2008 to 96% in 2018 (source: Banca d'Italia).

[6] Given this size threshold, sample firms likely have a stable and structured organization.

studies (e.g., Dean & Sharfman, 1996; Pugh et al., 1968; Rovelli et al., 2020) and included a list of 17 strategic decisions relating to firms' main functional activities (R&D, production, sales) and supporting processes (IT, HRM, business development) (Table 1). Following Colombo and Delmastro (2004), CEOs were asked to indicate whether these decisions are usually made by: 1 = the board of directors); 2 = the CEO; 3 = the managers reporting to the CEO, with formal authorization by the CEO required; 4 = the managers reporting to the CEO, autonomously; and 5 = other (middle-level) managers. We computed *Delegation* as the average level of delegation of all strategic decisions. Moreover, to explore whether the investigated relations vary across different types of decisions, we created three additional variables measuring the average level of delegation for each of the three types of decisions depicted in Table 1: *Delegation - corporate*, *Delegation - functional*, and *Delegation - staff*.

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Independent variables. Three variables measure firms' level of financialization, partially mimicking those used by Lin (2016): *Relative debt ratio*, *Shareholder loans*, and *Financial investments*. The first variable consists of the ratio between total liabilities, excluding payables to owners, and total assets and represents the "firm's dependence on debt" (Lin, 2016, p. 980). The "healthy" level of leverage varies across industries (e.g., Frank & Goyal, 2008). Hence, to control for industry differences in the level of leverage, in computing *Relative debt ratio*, we subtract from the firms' debt ratio the average leverage of the industry in which they operate (at the NACE Rev 2 three-digit level). *Shareholder loans* is measured as the ratio of payables to owners for loans over equity. Finally, *Financial investments* measures the "firm's dependence on financial activities" (Lin, 2016, p. 980) as the ratio between illiquid financial assets and total assets. All three variables are measured as the average over the three years (i.e., 2010, 2011, and 2012) prior to that to which the data on delegation refer (i.e., 2013) to smooth variations over time that may reflect non-recurrent shocks. Following Lin (2016), we treat these three financialization mechanisms as quasi-independent processes that may have independent direct consequences for the allocation of decision authority.

Control variables. We include in our models several control variables that, according to previous studies (e.g., Colombo & Delmastro, 2008, p. Ch. 2), influence the level of delegation of decision

authority. *Size* is the logarithm of a firm's sales in 2013, while *Growth* measures the percentage increase in firms' sales over the 2011-2013 period. *Hierarchical levels* measures the number of levels between the CEO and the last level with budget or expenditure responsibility. *Family owned and managed firm* denotes firms that are owned by one or more families and have a family CEO, while *Subsidiary* indicates that the focal firm is a subsidiary of another firm. We also control for the logarithm of the *Board's average tenure* and for *Market competition* and *Market dynamism* (De Massis et al., 2020; Rovelli et al., 2020). These two latter variables reflect the perceived level of competition and the growth and pace of technological change in the focal firm's industry, respectively. Moreover, we add three CEO-specific variables that might affect the extent of delegation within the firm (e.g., Akinola et al., 2018; Graham et al., 2015), namely, whether the CEO is a woman or a man (*Female CEO*), how long s/he has covered this role in the firm (*CEO's tenure*), and whether s/he has an MBA (*CEO's MBA*). Finally, we consider two additional variables that may influence the level of financialization of firms, especially their leverage (e.g., Frank & Goyal, 2008), and thus may bias our results if omitted. As a proxy for firm profitability, we include *ROA* in 2013. We also control for the ratio of *Tangibles over total assets* and *Age*, measured as the logarithm of the firm's age in 2013.

Method of analysis

To test our hypotheses, we resort to OLS models. Model 1 is the baseline model including only control variables. In Models 2, 3, and 4, we add the three financialization variables, one for each model. Then, in Model 5, we jointly include all financialization variables. To better understand the relation between firm financialization and delegation, we perform an additional exploratory analysis by distinguishing among the different types of decisions under consideration (i.e., corporate, functional, and staff strategic decisions, as classified in Table 1). We run a SUREG model, as the levels of delegation of decision authority over corporate, functional, and staff decisions are not independent (as confirmed by the Breusch-Pagan test of independence, p-value = 0.000). We thus simultaneously estimate three OLS models in which the dependent variables are *Delegation - corporate, Delegation - staff,* and *Delegation - functional*. In all models, we add dummy variables to control for the effect of a firm's industry and geographical location. The industry dummy is equal to 1 if the firm operates in the

manufacturing industry and 0 in the case of services. The geographical dummies indicate in which of the three main Italian geographical areas the firm is located (i.e., North, Centre, and South).

Results

Table 1 presents descriptive statistics about the level of delegation of different strategic decisions, distinguishing among corporate, functional, and staff decisions. Functional decisions exhibit the highest level of delegation, and corporate decisions exhibit the lowest. Descriptive statistics of the dependent, independent and control variables and correlations are reported in Supporting Information B, Table B1. To address the possible presence of multicollinearity, we performed tests of variance inflation factors and computed condition indexes, which were lower than the thresholds generally associated with multicollinearity problems (Belsley et al., 1980). Furthermore, because we retrieved the dependent variable and several controls through the same survey from a single respondent, we checked whether the results were affected by common method variance (Podsakoff et al., 2003; Podsakoff et al., 2012). We thus performed the Harman (1967) single factor test, which revealed five factors accounting for 65.8% of the total variance, thus indicating that common method bias is not a concern in this study (Podsakoff & Organ, 1986).

--- INSERT TABLE 2 ---

The estimation results are presented in Table 2. The baseline Model 1 shows that delegation increases with the size of the firm (p-value = 0.027) and the board's average tenure (p-value = 0.076); moreover, family owned and managed firms delegate more than other firms (p-value = 0.093). In Models 2-5, we introduce the financialization variables. In accordance with our three hypotheses, in all models, the financialization variables are negatively and significantly related to the level of delegation of authority over strategic decisions. Indeed, in Model 5, *Relative debt ratio* (p-value = 0.059), *Shareholder loans* (p-value = 0.002), and *Financial investment* (p-value = 0.007) are all negatively and significantly related to *Delegation*. All else being equal, a one standard deviation

increase in *Relative debt ratio*, *Shareholder loans*, and *Financial investments* is associated with a decrease in *Delegation* equal to 13, 10, and 10 percent of its standard deviation, respectively.[7]

--- INSERT TABLE 3 ---

The results of the SUREG model in Table 3 highlight interesting differences across corporate, functional and staff decisions. First, the level of delegation over corporate-level strategic decisions is not significantly associated with any of the three financialization variables (Model 6). The reason may be that these decisions tend to be centralized at the apex of the firm independent of firm financialization. Financialization also seems to have limited influence on the level of delegation over staff strategic decisions, with the partial exception of *Relative debt ratio* (Model 8), as indicated by its negative and significant coefficient ($p = 0.039$). Conversely, firm financialization is significantly associated with a decrease in the delegation of authority over *functional* strategic decisions. The coefficients of *Relative debt ratio* (p-value = 0.040), *Shareholder loans* (p-value = 0.050), and *Financial investments* (p-value = 0.059) are negative and significant. All else being equal, for each of these variables, a one standard deviation increase is associated with a decrease in *Delegation - functional* equal to 13 percent of its standard deviation. We can thus conclude that our hypothesized negative relation between firm financialization and the level of delegation of decision authority is mainly driven by strategic decisions relating to the development, production and sales of firms' products and services, rather than by corporate-level or staff-related decisions.

Robustness checks

The results are supported by a series of robustness checks (see Supporting Information C). First, we ran ordered logit models where the unit of analysis was the individual decision. In this case, the dependent variable is a categorical variable (from 1 to 5, see above) that indicates at what level of the corporate hierarchy each individual strategic decision is made. We ran one model considering all decisions and three other separate models for each type of decision, i.e., corporate, functional, and staff. In all four models, we added *Decision dummies*, and we clustered errors at the firm level. In this

[7] As a comparison, a one standard deviation increase in *Size* leads to an increase in *Delegation* equal to 17 percent of its standard deviation, indicating that our dependent variable is quite sticky.

way, we avoid the aggregation of decision-level data at the firm level. The results of the estimates are fully in line with those presented above.

Second, while in the paper we do not claim a causal relation between firm financialization and delegation, the data enable us to test whether the current level of delegation relates to the future level of financialization. Specifically, we measure the average level of the three financialization variables considering the three years starting from the one to which the delegation measure refers (i.e., 2013, 2014, and 2015). We test whether delegation significantly relates to the three measures of financialization measured over the 2013-2015 period; among the controls, we add the corresponding lagged financialization variables (i.e., the same variables measured over the 2010-2012 period considered in the main analyses). Overall, the results confirm that the level of delegation does not relate to the future level of firm financialization.

To further rule out the possibility that our results are driven by endogeneity, and specifically by the presence of unobservable omitted variable bias, we use the approach proposed by Oster (2019). To assess the sensitivity of our results to omitted variables, we follow Oster (2019) in assuming that the maximum R^2 that we would obtain if we were to include all the relevant unobserved heterogeneity is equal to 1.3 times the one that we observe including all our controls. Considering this maximum R^2 and Model 5, we compute the degree of selection on unobservables with respect to the selection on observables that would explain the whole results (Stata command: *psacalc*). If this value is – in absolute terms – above 1, then the estimates can be considered robust. The degree of selection is equal to 11.78, -9.30[8], and 7.29 for *Relative debt ratio*, *Shareholder loans*, and *Financial investments*, respectively. This means that unobservables would need to be 12, 9, and 7 times as important as the observables to produce a treatment effect of zero. We also compute the maximum R^2 that would lead to a degree of selection on unobservables relative to observables equal to 1; for the three variables of financialization, this R^2 is equal to 0.75, 0.56, and 0.47, respectively. This analysis suggests that our results are robust to omitted variable bias (Oster, 2019).

[8] A negative coefficient implies that the selection of unobservables would be of the opposite sign of the selection on observables (Fahey, 2019)

Finally, as mentioned above, we measured recourse to external debt by controlling for the average leverage of the industry in which the firm operates. The results are robust when applying the same approach to the other two financialization variables.

Discussion and Implications

This study develops current HRM research in three directions.

First, our focus on Italy, where the vast majority of firms are privately held, complements previous research, which is mostly focused on public (i.e., listed) firms (Davis & Kim, 2015). Public firms are indeed more likely to be highly financialized and thus more likely to experience financialization's effects (Davis, 2016; Styhre, 2015). Our findings suggest that the effects of financialization on HRM extend to privately held firms, a category of firms that account for the bulk of economic activity in most countries.

Second, the study contributes to current HRM research by using the lens of agency theory to predict the effects of financialization on managerial job design. This complements corporate governance research, which has employed agency theory to theorize that financialization reduces the autonomy of CEOs (Mizruchi & Marshall, 2016). We argue and show empirically that firm financialization is associated with a lower level of delegation to managers of authority over strategic decisions. We also find that this effect is more pronounced for functional – compared to corporate and staff – strategic decisions, which according to previous literature are the most likely to be delegated (e.g., Bourgeois & Eisenhardt, 1988). We interpret these results as an indication that in financialized firms, the functional competencies of line managers are less fundamental for firm success, and it is more difficult to align the behaviour of these individuals with firms' short-term financial objectives.

Third, our findings reinforce the need for context-sensitive HRM theory and practice. They are aligned with Thompson's (2011) view that current HRM theory is overly optimistic and a-contextualized in assuming that practices designed to nurture managers' and employees' human capital and elicit their commitment are *always* preferable (see e.g. Posthuma et al., 2013). Conversely, we theorize and show that financialization leads to the design of narrow, execution-oriented managerial jobs. Our findings question prescriptive and universalistic claims (Kaufman, 2015) and

indicate that HRM is sensitive to the political economy contexts in which it is embedded. That ascribes this study to the critical HRM tradition, which posits that HRM practices "can only be understood in the context of the wider social-economic, political and cultural factors which shape – if not determine – those practices" (Delbridge & Keenoy, 2010, p. 801). Within this tradition, our study is informed by so-called subversive functionalism (Koss Hartmann, 2014), as it employs a mainstream theory to critically explore the effects of a key feature of late capitalism (i.e., firm financialization) on power distribution/concentration (i.e., the authority over strategic decisions attributed to managers via job design).

The paper is not devoid of limitations, which open avenues for further research. First, we base our analysis on cross-sectional data. We show that the current level of delegation does not predict the future level of financialization (see Supporting Information C) and that omitted variable bias is unlikely to substantially influence our results. However, we cannot provide evidence of a causal relation. For this purpose, one should collect primary longitudinal data on firms' organizational design by observing a representative sample of firms repeatedly over time; complementing those longitudinal data with qualitative data could then allow a better understanding of the mechanisms of this causal relation. Second, we focus on three specific dimensions of financialization, which are appropriate in the context of this study; future work might extend our analysis by exploring other dimensions (e.g., owner rewards) and/or their effects on other aspects of job design. Third, we focus on a single country. Previous work suggests that firm financialization and its effects are to some extent country-specific (Maxfield et al., 2017). Hence, it would be interesting to replicate this study in other countries to assess the generalizability of our results.

Despite these limitations, our findings have important implications for the broad HRM community. Regarding HRM practice, financialized firms should hire managers with execution abilities, as in these firms, managerial jobs are narrowly designed. Moreover, they should convey to candidate managers realistic information relating to the low level of delegation they will be granted to maximize their retention. Regarding HRM education, the breadth of the effects of firm financialization on job design suggests the need to consider financialization as a key chapter of HR educational programs (Pettigrew & Starkey, 2016), especially when critically oriented (Bratton & Gold, 2015). Finally, we recommend

that individuals looking for managerial jobs collect information on the level of financialization of prospective employers because of its strong influence on the content (i.e., orientation to execution) of managerial jobs.

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Tables

Table 1. List of decisions: descriptive statistics, and percentage of firms in which the decision is taken by the board, the CEO, or at lower level

Decision	*Mean*	*SD*	*Board*	*CEO*	*Lower level*
Corporate decisions					
Entry or exit decisions from markets/product lines	2.1878	1.0152	27.70%	38.50%	33.80%
Changes in the organizational structure	2.0413	0.7578	21.56%	57.34%	21.10%
Strategic alliances with other organizations	1.7972	0.8082	40.55%	42.40%	17.05%
Major business investments (e.g., acquisitions, joint ventures, creation of subsidiaries, new plants)	1.4352	0.7443	68.52%	21.76%	9.72%
Functional decisions					
Developing innovative products and services	2.5530	1.0084	15.67%	33.18%	51.15%
Major changes in products and services	2.6528	0.9123	9.72%	32.87%	57.41%
Major changes in marketing activities	2.6321	0.8634	9.43%	33.02%	57.55%
Major price decisions	2.5741	0.9271	10.19%	39.35%	50.46%
Strategic decisions about purchases (e.g., supplier selection)	2.8986	0.8969	7.37%	21.20%	71.43%
Strategic decisions about production insourcing/outsourcing	2.6129	0.9267	11.98%	32.72%	55.30%
Expansion of production capacity and modernization of production equipment and plants	2.0718	0.8546	29.67%	36.36%	33.97%
Staff decisions					
Changes in organizational processes and procedures	2.4700	0.7995	10.60%	40.09%	49.31%
Hiring, firing, promotions, salaries and incentives for the middle management	2.4037	0.7574	9.63%	46.79%	43.58%
Labour disputes with unions	2.7593	0.8055	3.24%	36.11%	60.65%
(Re)design of management control systems (e.g., planning, budgeting, controlling)	2.5576	0.9514	13.36%	34.56%	52.07%
Major financing decisions (e.g., choice of capital sources, relations with banks)	2.2156	1.0134	29.36%	31.65%	38.99%
Major investments in information and communication systems	2.2074	0.8915	25.35%	33.64%	41.01%

Table 2. OLS models on *Delegation*

	Model 1		Model 2		Model 3		Model 4		Model 5	
	coef.	p.	coef.	p.	coef.	p.	coef.	p.	coef.	p.
Relative debt ratio	-		-		-0.585	0.056	-		-0.572	0.059
					(0.304)				(0.301)	
Shareholder loans	-		-		-		-0.062	0.005	-0.070	0.002
							(0.022)		(0.022)	
Financial investments	-		-1.276	0.004	-		-		-1.172	0.007
			(0.442)						(0.427)	
Size	0.066	0.027	0.059	0.049	0.060	0.049	0.066	0.026	0.055	0.076
	(0.029)		(0.030)		(0.030)		(0.029)		(0.031)	
Growth	0.085	0.679	0.046	0.820	0.099	0.626	0.088	0.668	0.067	0.743
	(0.204)		(0.204)		(0.203)		(0.204)		(0.203)	
ROA	-0.006	0.288	-0.005	0.335	-0.005	0.340	-0.008	0.170	-0.007	0.217
	(0.005)		(0.005)		(0.005)		(0.005)		(0.005)	
Tangibles over total assets	0.007	0.795	0.007	0.801	0.012	0.665	0.010	0.731	0.015	0.606
	(0.028)		(0.029)		(0.028)		(0.028)		(0.028)	
Age	-0.031	0.545	-0.032	0.528	-0.028	0.573	-0.034	0.509	-0.033	0.514
	(0.051)		(0.051)		(0.050)		(0.051)		(0.050)	
Hierarchical levels	0.025	0.409	0.024	0.423	0.025	0.388	0.022	0.461	0.022	0.459
	(0.030)		(0.030)		(0.029)		(0.030)		(0.030)	
Family owned and managed	0.140	0.093	0.135	0.107	0.128	0.129	0.140	0.092	0.124	0.142
	(0.083)		(0.083)		(0.084)		(0.083)		(0.084)	
Subsidiary	-0.052	0.558	-0.039	0.661	-0.059	0.498	-0.058	0.510	-0.054	0.533
	(0.088)		(0.088)		(0.087)		(0.088)		(0.087)	
Board's average tenure	0.093	0.076	0.087	0.100	0.095	0.067	0.093	0.075	0.090	0.087
	(0.052)		(0.053)		(0.052)		(0.052)		(0.052)	
Market competition	0.036	0.301	0.040	0.257	0.035	0.306	0.040	0.242	0.044	0.203
	(0.035)		(0.035)		(0.034)		(0.034)		(0.034)	
Market dynamism	0.002	0.960	-0.003	0.938	-0.001	0.978	0.003	0.942	-0.004	0.906
	(0.037)		(0.037)		(0.037)		(0.037)		(0.036)	
Female CEO	-0.080	0.553	-0.087	0.522	-0.074	0.591	-0.081	0.548	-0.081	0.553
	(0.135)		(0.135)		(0.137)		(0.135)		(0.136)	
CEO's tenure	0.006	0.218	0.006	0.188	0.006	0.211	0.005	0.264	0.006	0.230
	(0.004)		(0.005)		(0.005)		(0.004)		(0.005)	
CEO's MBA	-0.008	0.929	-0.010	0.912	-0.011	0.904	-0.012	0.895	-0.017	0.850
	(0.089)		(0.089)		(0.088)		(0.089)		(0.088)	
Constant	1.600	0.000	1.680	0.000	1.777	0.000	1.637	0.000	1.889	0.000
	(0.373)		(0.376)		(0.397)		(0.370)		(0.397)	
Industry dummy	YES		YES		YES		YES		YES	
Geographical dummy	YES		YES		YES		YES		YES	
Observations	219		219		219		219		219	
R^2	0.096		0.107		0.112		0.102		0.129	

Robust standard errors in parentheses

Table 3. SUREG models on delegation, distinguishing among corporate, staff and functional decisions

	Model 6 Delegation - corporate		Model 7 Delegation - functional		Model 8 Delegation - staff	
	coef.	p.	coef.	p.	coef.	p.
Relative debt ratio	-0.196	0.569	-0.686	0.040	-0.647	0.039
	(0.344)		(0.335)		(0.314)	
Shareholder loans	-0.083	0.148	-0.109	0.050	-0.019	0.714
	(0.057)		(0.056)		(0.052)	
Financial investments	-0.592	0.514	-1.671	0.059	-1.009	0.224
	(0.908)		(0.884)		(0.831)	
Size	0.024	0.422	0.065	0.028	0.064	0.021
	(0.030)		(0.030)		(0.028)	
Growth	-0.039	0.867	0.161	0.475	0.016	0.938
	(0.231)		(0.225)		(0.211)	
ROA	-0.010	0.108	-0.008	0.206	-0.003	0.609
	(0.006)		(0.006)		(0.006)	
Tangibles over total assets	0.002	0.946	0.013	0.601	0.024	0.300
	(0.025)		(0.025)		(0.023)	
Age	-0.060	0.346	0.016	0.799	-0.075	0.197
	(0.064)		(0.062)		(0.058)	
Hierarchical levels	-0.022	0.504	0.027	0.399	0.045	0.142
	(0.033)		(0.032)		(0.030)	
Family owned and managed firm	0.005	0.964	0.105	0.293	0.230	0.015
	(0.103)		(0.100)		(0.094)	
Subsidiary	-0.088	0.349	0.042	0.652	-0.146	0.091
	(0.094)		(0.092)		(0.086)	
Board's average tenure	0.126	0.030	0.091	0.110	0.059	0.267
	(0.058)		(0.057)		(0.053)	
Market competition	0.077	0.065	0.030	0.466	0.037	0.342
	(0.042)		(0.041)		(0.038)	
Market dynamism	0.019	0.659	0.011	0.799	-0.037	0.351
	(0.043)		(0.042)		(0.039)	
Female CEO	0.089	0.533	0.002	0.989	-0.299	0.022
	(0.143)		(0.139)		(0.131)	
CEO's tenure	0.007	0.191	0.006	0.232	0.004	0.360
	(0.005)		(0.005)		(0.005)	
CEO's MBA	0.001	0.993	-0.009	0.925	-0.038	0.688
	(0.103)		(0.100)		(0.094)	
Constant	1.725	0.000	1.811	0.000	2.081	0.000
	(0.409)		(0.398)		(0.374)	
Industry dummy	YES		YES		YES	
Geographical dummy	YES		YES		YES	
Observations	219		219		219	
R^2	0.077		0.149		0.170	

Robust standard errors in parentheses