EFFECTS OF ORGANIZATIONAL CULTURE AND COMPETITIVE STRATEGY ON THE RELATIONSHIP BETWEEN HUMAN RESOURCE STRATEGIC ORIENTATION AND FIRM PERFORMANCE

BY

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Declaration

This independent conceptual study paper is my original work, and has not in part or its entirety been presented to any other institution towards the award of a degree

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The first decade of the 21st century, presents perhaps the most challenging and dynamic business context that is constantly being transformed by many factors including: cut-throat competition, changing customer and investor demands, rapid diffusion of new technology, and lately the melting global economies, which threaten business survival and growth (Wan-Jing & Tung Chun, 2005; Anakwe, 2002; Hitt, Keats & Demaric, 1998). Further, workers demand work on their own terms- growth, variety, challenging careers that involve high levels of responsibility and flexibility, and their personal and professional needs must be catered for (Labisch, 1995). Finally, the traditional sources of performance - market, financial capital, technology and scale economies, have become increasingly available to virtually anyone anywhere, subjecting firms to intense competition (Youndt et al., 1996:839). Therefore, to compete effectively, firms need to focus even harder on other sources of competition and competitive strengths, develop appropriate and flexible long-term management strategies and engage in new forms of competition

These new business demands have made the old inflexible firm management practices and systems, which have evolved over time, in a relatively stable environment context inadequate to meet the challenges posed by today's complex and dynamic business environment. One source of sustainable performance increasingly point inwards towards organizational capability (Ulrich & Lake, 1990), more specifically the strategic human resource management (SHRM) (Dyer, 1993; Cappelli & Singh, 1992; Wright & MacMahan, 1992). Through SHRM, particularly the development of internally consistent bundles of HR practices, which are properly linked to business strategy, greater organizational effectiveness and competitiveness is enhanced (Anakwe, 2002; Truss, Gratton, Hope, McGovern and Stiles, 1997; Pfeffer, 1994). Indeed, the success of world class businesses, in terms of productivity and quality of goods and services, at home and abroad is attributed to their strategic management processes, work systems and approaches to people management (Bjorkman & Fan, 2002; Adler, 1993; Nonaka, 1992).

Paradoxically, even as some firms are closing business, liquidating, retrenching or even relocating because of environmental challenges, others are diversifying, conglomerating, joining venture, innovating and/or developing new products and/or markets. That is, today's, firm performance must be worked for strategically and proactively. This paper has examined two SHRM variants (soft and hard HR orientation). It has also examined two organizational behaviour-reinforcing capabilities (organizational culture and competitive strategy), focusing on their influence on the HR strategic orientation, and their modifying effect on the relationship between the HR strategic orientation and firm performance in a dynamic business context.

Basically, the paper has looked beyond industrial economics-based notions of strategy and tried to establish how businesses can sustain competitiveness using soft and hard HR strategic practices and behaviour-reinforcing organizational resource capabilities in a dynamic context. The paper argues that although human talent represents a major asset of performance, in a dynamic business landscape, competitive human behaviours are shaped, facilitated and enhanced by these two organizational capabilities among others. The paper is inspired by the 'dynamic, co-specialized and complementary organizational resource perspectives'. It argues that in competitive contexts (when business is not as usual), sustained superior firm performance results from the direct and indirect/moderating influences of dynamic, co-specialized and complementary organizational resource capabilities including: HR management capability, appropriate organizational culture and relevant competitive strategies. Besides this attempted contribution to knowledge, the paper has identified research gaps and areas of future research interest, and made conclusive remarks. But presented hereunder is the theoretical underpinning that informed this paper.

1.2 Theoretical Underpinnings to Firm Performance

Although, the traditional sources related to market, financial capital and scale economies have been weakened by globalization and related economic changes, HR and management capability are indispensable resources and sources of superior firm performance. This paper has adopted two theoretical approaches, namely, the resource based view (RBV) and the contingency/best fit perspectives, to explain how these two resources contribute to sustained superior firm performance through maximizing on the value of organizational HR.

1.2.1 Resource Based View - RBV

Strategy scholars have begun to look beyond industrial economics-based notions of strategy, to better understand how organizations sustain their competitive advantage. Recent theoretical works on firm performance indicate that superior firm performance could be generated from the firm HR, among other resources. Researchers see organizations as bundles of resources, and have noted the value of superior human resource management capabilities in enhancing superior firm performance (Pfeffer, 2005, 1994; Barney, 1991, 1995, 1997; Hunt, 1997a, 1997b; Hunt & Morgan, 1995; Ulrich & Lake, 1990; Lado, Boyd & Wright, 1992). They argue that competing firms can enjoy sustained advantage due to resource heterogeneity and the imperfect mobility of these resources. They further aver that firm HR capabilities represent an invisible asset that creates value when it is embedded in operational systems, in a manner that enhances firm's ability to deal with a turbulent environment, and that HR influences both the strategic business choices that managers make and the implementation of chosen strategies. However, it is only those HR that are valuable, rare and difficult to imitate, which provide sustainable competitive advantage (Amit & Schoemaker, 1993; Barney, 1991; Schoenecker & Cooper, 1998). Further, it is only through those business strategies, which are successful in leveraging the firm's rare, valuable and difficult to imitate resources, that the firm gains performance advantage over its competitors in the market place (Hitt, Nixon, Clifford & Coyne, 1999), leading to superior performance (Peteraf, 1993).

Barney (1991), Wernerfelt (1984) Penrose (1959) have demonstrated how firm resources (including HR), can be effectively used to develop and implement the business and any other strategies that enhance superior performance. RBV is also an attempt at ensuring that systems and processes are put in place to attract superior resources into the firm, and to utilize them effectively to maximize the firm's value. It focuses on internal analysis of the firm, thus providing an avenue for examining how firms can develop HR into a pool of skills that can be a source of superior performance. Therefore, the resource based approach provides the framework for examining the pool of HR that may be able or unable to carry out a given strategy (Wright & McMahan, 1992: 303), hence demonstrating that business strategies are not universally implementable, but are contingent on the quality and effectiveness of the organizational HR.

Although RBV theorists contend that firms can enjoy sustained advantage due to resource heterogeneity and the imperfect mobility of such resources (Barney, 1991, 1997), this theory suffers from two major theoretical deficiencies. First, RBV implicitly assumes static equilibrium, without addressing the requirements for continued success in a dynamic environment (Mahoney, 1995). Second, it also focuses only on the difficulties and barriers in competitors imitating, substituting or taking away resources, without stating how firms can sustain performance in dynamic environments.

1.2.2 Contingency/Best Fit Perspective

Unlike the RBV and its inherent theoretical gaps, the contingency/best fit perspective provides another novel approach to understanding the role of effective management of organizational HR capabilities, in eliciting and enhancing performance in a competitive environment. Contingency theorists posit that firm performance is maximized when HR strategy is linked to the firm's strategy (Miles & Snow, 1984; Lengnick-Hall & Lengnick-Hall, 1988; Baird & Meshoulam, 1988; Schuler & Jackson, 1987). Performance is, therefore, a factor of aligning HR practices with the needs of the business. It also implies achieving interaction between the organization and its environment, so that organizational activities are aimed at satisfying the prevailing and futuristic customer and environmental needs. Implicitly, the proponents of this perspective opine that in a dynamic environment, managers have the responsibility of formulating and aligning HR practices with the corporate/business strategies. Thus, employee management becomes an integral part of corporate strategy in producing high performance.

Another equally important concept within contingency/best fit perspective is 'flexibility'. It denotes organizational dynamic ability to respond to demands from the dynamic environment, by modifying practices and strategies in response to non-transient changes in the environment. Indeed, when faced with a complex and dynamic environment, organizations need flexible systems, practices and processes, to adapt to the changing requirements. Resource flexibility is internal and is made possible by broad heterogeneous skills and competencies of the workforce, organizational values and organic administrative systems. It accounts for a larger range of alternative use, which a resource can be applied to, resource adaptability, involvement and consistency (Denison & Mishra, 1995). Coordination flexibility accounts for the extent to which the firm management can proactively scan the environment (evaluate markets and competitors), re-synthesize the strategy, reconfigure the chain of resources and re-deploy resources accordingly (Teece, Pissano & Shuen, 1997:520).

Thus, in dynamic contexts, organizations need organic as opposed to bureaucratic HR systems, which promote the development of HR pool, profiled to engage in a wider variety of behaviours, and to facilitate achievement of business strategy. This is achievable only when there is resource coordination and flexibility. In non-transient contingencies, fit and flexibility are complementaries, since achieving fit is dependent on the flexibility of the entire system. The concept of fit and flexibility imply that the existing resources and systems must be flexible, to allow renewal of the strategic strength of a firm's assets in conjunction with changing environmental conditions. Otherwise, the strength of a firm's original strategic assets may soon be nullified by the changing competitive profile. The soft and hard HR policies, practices and processes demonstrate management flexibility and capability.

Just like RBV, the contingency model fails to recognize the need to align employee with the firm or comply with the social and legal requirements in the cause of this process (Boxal, 1996). Although employers typically enjoy superior bargaining power, managers in competitive industries must give some thought to how they can meet the baseline needs of employees whose skills they critically need for their firm's survival in dynamic times. In addition, the model lacks sufficient attention to dynamism. While it is important for firms to implement the human dimensions of any competitive strategy, ongoing changes imply they should do more than this. A more helpful theoretical model for practice is one in which fit with existing competitive strategy is developed simultaneously with flexibility in the range of skills and behaviours that may be needed to cope with exogenous shocks and different competitive scenarios in the future of a firm. Thus, HR strategy should give effect to the firm's current competitive goals, by upgrading, rejuvenating and reinventing valuable resources and motivating people with the sort of skills and rewards needed in the firm's competitive sector. Employees should be encouraged to think out of the box by building the skills and competencies needed for business capabilities, technological advances or changes to customer expectation (Boxal & Purcell, 2000).

Consistent with RBV and contingency/best fit perspectives on one hand, and the dynamic and competitive business context, we argue that to sustain superior performance, firms need more than superior HR. They need effective HR management capabilities to: identify, link, upgrade, rejuvenate and reinvent valuable resources, systems, processes and practices to cope with these complexities (Grant, 1996). They also need the ability to create an environment in which they can be self-reinforcing and enhancing in value and strength, thus causing major cost disadvantage to competitors. This is because employees are the ultimate source of sustained advantage, given that the traditional sources related to market, financial capital and scale economies have been weakened by globalization and related economic changes. Arguably, when the business is not as usual, sustained performance is a factor of dynamic and flexible organizational HR capabilities, determined by a culture and strategy-oriented HR policies, practices and processes. To this end, this paper has adopted a dynamic, co-specialized and complementary resource approach in examining, discussing and linking these variables in the hypothesized relationship in figure 1. Chapter two examines the concept of HR orientation and the role and value of HR in a human resource-organizational performance equation.

CHAPTER TWO

HUMAN RESOURCE STRATEGIC ORIENTATION (HRSO)

2.1 Human Resource Strategic Orientation (HRSO) - Defined

From strategic HRM theory, HR strategic choices revolve around two major typologies, namely: soft and hard HR orientations, both of which represent two different approaches to human nature (Guest, 1987, 1989; Walton, 1985; Truss et al., 1997). These two typologies have since gained credence with scholars, who want to bridge theory and practice (Truss, 1999; Kane & Crawford, 1989). Other typologies by Miles & Snow (1978), Porter (1980) have stimulated enormous empirical research. Doty and Glick (1994) opine that typologies are complex theories that can be subjected to empirical research. In the absence of strategic HR theories, the soft and hard typologies (connoted in this paper as HRSO) have been used in the past as appropriate theoretical bases to discuss firm performance (Legge, 1995a; Truss, 1999; Kidombo, 2007). This paper adopts the same theoretical perspective, to discuss HR strategic orientation and performance in firms, when business is not as usual.

2.1.1 Soft HR Strategic Orientation - SHRSO

The underlying ideas and assumptions of soft HR practices are derived from the human relations school of thought of the early twentieth century, and is informed by theory Y ideals. The soft approach is development-oriented, with a humanistic focus on the value of employees. Firms employing this approach perceive their employees as core assets, partners and essential participants, in a venture characterized by commitment and collaboration, rather than passive inputs or economic factors of production (Beardwell & Holden, 1977). Consequently, they recognize and support employee performance needs such as training and development, communication, career development, job security and team working. Concentrating on people outcome transforms employees into a highly motivated and committed workforce, which in turn facilitates high performance. Collaboration is emphasized through creating and communicating a culture of partnership, friendship and trust between the employer and employees and among employees. These core social factors have significant effect on productivity of workers in a work environment (Anthony et al., 2000). Organizations that practise the soft approach also stress on the importance of employee trust, commitment and self-regulation. The focus of the approach is on individual development, lifetime training, job security and freedoms (Pinnington & Edwards, 2000).

2.1.2 Hard HR Strategic Orientation - HHRSO

The hard HR approach is derived from the strategic management and business policy line of thought (Fombrum, Tichy & Devanna, 1984). It emphasizes quantitative, calculative and business strategic approach to managing the headcount resource, in as a rational way as any other economic factor of production. Arguably, people have to be attracted, and deployed in a calculative and instrumental way for efficient production, and hence for economic gain. This approach assumes the needs of the firm are paramount, and increasing productivity is management's principal objective, and is underpinned by efficiency seeking managerial devices such as, tight supervision and controls, performance appraisals and performance related pay. These practices are borrowed from the scientific ideas of Fredrick Taylor, and are perceived to enhance performance. The hard approach is also informed by theory X ideas, which depict man as perpetually disliking work, hence the need for tighter control systems and close supervision (Trust et al., 1997). Some scholars proclaim this approach as common sense and the only route to business success, others dismiss it as inhuman (Hendry, 1995), still others argue that it is used to strengthen management prerogative and to legitimize the worst employee relations excesses of the enterprise culture (Legge, 1995b).

These two approaches are concerned with how organizations manage their most critical factor of performance – the people. Each approach has implications for HR and their level of commitment and productivity. Whereas the hard approach relies on establishing order, exercising tight control of employees, who are placed in narrowly defined jobs and uses efficiency methods of production, the soft approach is a commitment eliciting approach, that enables workers to respond creatively by giving broader responsibilities, encouraging contribution and helping them achieve satisfaction in their work. However, given resource constraints, environmental challenges and business goals, firms adopt different approaches in the management of their workforce and operations with changing times. Some choose to be calculative in their approach by adopting efficiency enhancing practices and tight controls; others adopt collaborative approach, characterized by commitment enhancing practices such as employee training and development and empowerment, while others adopt aspects from both extremes. Each orientation demands different systems of HR policies, practices and programmes, with different implications for organizational effectiveness and performance. Research shows that the two approaches are not mutually exclusive (Bae &

Lawler, 2000). Other findings suggest that there are more benefits in adopting one mode connected to the primary business strategy (Delaney & Huselid, 1996).

2.2 Objectives of HR Strategic Orientation

Since globalization and other economic changes have weakened traditional sources of firm performance Youndt et al., (1996:839), Pringle and Kroll (1996) and economist Thurow in Jackson and Schuler (2000) opine that people are the ultimate source of superior performance, especially in dynamic business contexts. In particular, the cut-throat competition and ever-changing customer and investor needs demand that organizations must harness their most valuable, rare and inimitable resources towards exploiting existing business opportunities (Drucker, 1974), the assumptions of McGregor's theory Y and X notwithstanding (Truss, 1997). To this end, both approaches appreciate the value of HR as inimitable and valuable resource for enhancing firm performance through: commitment and collaboration, tight supervision and controls, performance related pay, improved production, reduced expenses, speedy decision-making process, customer services orientation and quality production (Boyett, 1995).

The soft and hard HR strategic approaches provide superior business management initiatives, which link firm HR practices to the business needs for greater organizational effectiveness (Anakwe, 2002). As a management initiative, HR strategic practices move the business firm from: single centred leadership to multiple-centred leadership; independent to interdependent actions; vertical directives to horizontal directives; emphasis on efficiency to emphasis on efficiency with flexibility (Boyett, 1995), arising from superior management capability and human resource flexibility embedded in the two approaches. Today, most competitive firms in the developed world setting, continue to record superior performance, at home and abroad because of their strategic management processes, flexible work systems and approaches to people management (Nonaka, 1992; Adler, 1993). This is an indication that success variables have been explicitly defined and internalized (Pfeffer, 2005).

2.3 The Nature and Source of Competitive Advantage in Human Resources.

Human resources are arguably the ultimate source of sustained competitive advantage even when all traditional sources related to market, financial capital and scale economies have been weakened by global and related changes. The question that is often asked is what is so unique about HR, and why are businesses not exploiting their HR strength?. Two primary streams of research on HR as source of competitive advantage point to the tacitness and social complexity in HR; the quality of human capital itself, including their creativity, work ethics, human, entrepreneurial and other related skills at all levels; and the capability of managing HR (Coff, 1997; Peteraff, 1993; Barney, 1985,1991).This argument has been tested against the RBV criteria (Schuler & MacMillan, 1984; Wright & McMahan, 1992; Wright et al., 1994; Pfeffer, 1995; Kamoche, 1996; Mueller, 1996; Coff, 1997).

In line with both views, it is the path-dependent, socially complex and causally ambiguous properties of knowledge and relationship dynamics embedded in the human capital, rather than the capital itself, that creates a firm's sustained performance. This view emphasizes human cognition, knowledge and relationship processes, and overcomes the major drawbacks of static environment capabilities equilibrium, matching nicely with the dynamic resource approach. In fact, Becker and Gerhart (1996) posit that through effective HR practices, these processes can be renewed and developed in response to or even ahead of environmental dynamics. Therefore, compared to financial capital, scale economies, or patents, the invisible asset of an effectively employed human resource system is critical in enhancing and renewing a firm's capabilities. According to the dynamic resource approach, sustainable advantage comes from capabilities that develop, renew, and upgrade the resources being managed as well as directly from the capabilities themselves.

Pursuant to HR strategic orientation approach, it is the system or bundles of organizational HR practices, rather than individual practices themselves, which are important in facilitating firm performance. Particularly, it is the design and implementation of the "relevant" internally consistent practices, processes and systems within the soft and hard HR management paradigms that ensure a firm's HR contribution to the accomplishment of its goals (Huselid et al., 1997; Wright & McMahan, 1992). Recent research evidence attests to the positive effects of HR strategic practices on performance across the world (Bjorkman & Fan, 2002; Bae & Lawler, 2000; Arthur, 1992, 1994; Guthrie, 2000). These findings provide a strong support for the positive impact of systems of HR practices on firm performance.

2.3.1 Dynamic Resource View

Although RBV implicitly assumes static equilibrium (Teece et al., 1997), which the 21st century business landscape does not provide, logic demands that the firm resources have to remain relevant with changing times. The essence of dynamic resource view implies the renewing of firm HR, (including attitudes and behaviors) among other resources, in conjunction with the changing environmental conditions, so that the strength of a firm's original strategic assets are not nullified by the changing competitive profile. Subsequently, this paper adopts the 'dynamic view' on the premise that HR is a dynamic and flexible resource, capable of designing strategies to sustain superior performance. Essentially, dynamic contexts demand for dynamic, valuable, rare and imperfectly imitable resource capabilities that can renew and reallocate resources to achieve business goals in continuously changing environments. Thus, a firm needs more than the superior resources implied by RBV. Both the nature of resource bundles at any one point, and also the firm's ability to renew, rejuvenate, re-allocate and redefine its resources in coping with the changing business environment, facilitate continued superior performance. Arguably, in a dynamic environment, sustained superior performance comes only from strategic firm capabilities that develop, renew, and upgrade resources being managed as well as directly from the capabilities themselves.

2.3.2 Co-specialized Resource View

Like the 'dynamic resource view', co-specialization of several organizational resource capabilities can be seen as promoting imperfect imitability. RBV theorists argue that even if one component of co-specialized resource (for example superior HR or organization culture) is imitated or poached by competing firms, the value of such a resource to the imitating/poaching firm is reduced because of co-specialization (Pringle & Kroll, 1997; Chi, 1994; Peteraff, 1993). The risk of losing certain resources and competitive advantage can thus be minimized drastically. Equally, the strategic value of co-specialized resources will be greater if the resources are mutually reinforcing in effect. Consistent with this view, the paper argues that in a dynamic environment, firms that co-specialize organizational resources (organizational culture, competitive strategy among others), are more likely to achieve sustainable performance than their competitors which do not.

2.4 Human Resource Strategic Orientation and Firm Performance

Although HR and HR management capabilities have been glorified for facilitating superior firm performance, vide the use of superior resources or linking HR practices to business strategy and through deployment of highly committed and capable workforce (Guest, 1989; Storey, 1992), much of the glorifying studies have looked at a single or few generic HR practices at a time, and focused on the content details of HR practices rather than the process through which firm performance is achieved (Becker & Gerhart, 1996). This has been exemplified by the adoption of the positivist resource-based theory and three competing modes of theoretical statements (universal, contingency and configurational), whose perceived contributions have not been explicitly acknowledged (Delery & Doty, 1996).

Guest (1987) in a model of soft HR reiterates that a system of HR practices facilitates high employee commitment to the organization, strategic integration, high workforce flexibility and adaptability. These HR outcomes lead to high job performance, stronger problem-solving skills, greater change consistent with strategic goals, improved cost-effectiveness and reduced employee turnover. In addition, the shift from traditional, control oriented approaches to flexible participatory management systems, encourage socially complex resources such as trust, friendship and teamwork, which are essential components of production process (Barney, 1995). Motivation and commitment is also achieved through HR systems that facilitate building of trust, consistency and fulfilling of promises. All these comprise a big chunk of social capital, which enables people to collaborate - a core competency that leads to superior business performance (Walton, 1985). Managing HR to achieve better performance outcomes focuses on retaining people, building their expertise through an ongoing learning process, fostering a supportive culture for sharing knowledge and establishing mechanism to distribute benefits arising from utilizing this expertise (Collins & Smith, 2006).

Findings by Truss (1999) and Kane and Crawford (1999), suggest that improved firm performance can also be achieved through hard HRM practices, although the immediate outcomes at employee level are negative. This can be explained by factors such as employees wanting to be associated with winning teams or exogenenous factors such as fear of loss of employment by employees. Kidombo's (2007) study found that in Kenya's large private manufacturing firms, hard HRM practices commit employees to private organizations affectively, and their through control-oriented systems, greater individual contribution to performance is realized. This fact is attributed to employees who like to be associated with the winning teams. However, recent research evidence supports the presence of low mutual commitment and trust in organizations that practised hard HRM. This is attributed to poor pay, lack of challenging jobs, careers, limited training and promotion/growth opportunities (Kamoche, 2000a). In addition, Hard HR-oriented firms are likely to have short-term goals, be under pressure to reduce costs, have bureaucratic structures, are labour-intensive, the management is influenced by theory X ideals and hence tight controls. Lack of trust in the organizational practices, processes and systems exacerbate commitment levels, leading to higher employee turnover, low quality products and services and hence poor performance.

In highlighting the importance of commitment, Walton (1985) observes that performance improves only when/if an organization moves away from traditional or transactional control oriented approach to a strategic or commitment approach to managing people. Whereas the former approach relies on establishing order and control and uses efficiency-enhancing methods to elicit performance efforts in employees, the soft or commitment approach appeals and enables talented employees to initiate and respond creatively by accepting broader and challenging responsibilities; encourages and rewards contribution, and helps employees achieve satisfaction in their work, as opposed to when they are tightly controlled and placed in narrowly defined and repetitive jobs.

Rodriquez and Ventura (2003), while using Miles and Snow's make and buy typologies, undertook to explain the links between HR practices and firm performance. Although their findings indicate that a make (soft) HR system has a positive effect on employee outcomes, such as turnover and morale and consequently overall firm performance, they nevertheless, do not explain how this linkage is realized. Laursen and Foss (2003) investigated the link between HR practices and innovation performance. They established that investment in capability to innovate can be developed through inter disciplinary work groups, quality circles, planned job rotation, delegation of responsibility and performance related pay.

The empirical research on the relationship between hard and soft HRM and firm performance has not provided evidence of conclusive and systematic relationship. Basset (1994) cited by Truss et al., (1997) noted that the assumption that committed workers were necessarily more productive had not been proven, while Iles et al., (1990) argues that organizational commitment may not necessarily be a benefit either for the employee or the organization. Instead, it may result in stress for the individual and the neglect of other areas of life. For the organization, it might result in lower flexibility, less creativity and resistance to change. Legge (1995a) argues that the hard HR approach has been used to strengthen management prerogative and legitimize the worst employee relations excess of the enterprise culture. In addition, Truss et al., (1997) found that no single firm adopted either a pure soft or hard approach to HR management. On the whole, it would appear that there is no consensus on the relationship between HRSO and firm performance, especially in a dynamic environment and context like the one under review.

This chapter appreciates the value of HR systems, particularly the design and implementation of the "relevant" internally consistent bundles of HR practices, processes and programmes within the soft and/or hard HRM paradigms. The approaches enhance effective contribution to the accomplishment of organizational goals by HR (Huselid et al., 1997; Wright & McMahan, 1992). However, in dynamic contexts, when business is not as usual, the soft and hard strategic HR practices on-their-own, do not lead to superior performance. This is because the diverse nature of humans makes them difficult to understand, observe and predict (Peteraff, 1993). However, the dynamic nature in them also facilitates learning and change of attitude and behaviour, making humans the most dynamic and flexible resources that can switch from one orientation to another, depending on environmental demands. Similarly, the necessary HR practices, processes and systems, can be generated, lubricated and driven accordingly by appropriate organizational behaviour-reinforcing capability (ies), like the organizational culture. Chapter three examines the effect of organizational behaviour-changing factors, specifically the organizational culture and how it determines HR strategic orientation, and its moderating effects on the relationship between organizational HR strategic practices and firm performance, when business is not as usual.

CHAPTER THREE

ORGANIZATIONAL CULTURE

3.1 Organization Culture-Defined

Organization culture (OC) is a system of shared meanings (Robbins. 2002, 1990). manifested by a set of values, behavioural norms, patterns of beliefs, symbols, rituals, language used and artifacts, which govern and shape the way employees in an organization behave (interact with each other, and invest energy in their jobs and the organization at large) (Van Muijen et al., 1999). Deal and Kennedy (1982) view culture as the dominant values espoused by an organization that state "how we do things around here". Implicitly, OC conveys to employees what behaviors they should engage in, thus increasing behaviour consistency, creating predictability, orderliness and consistency.

Most scholars have likened OC to personality, since it affects in a predictable way, how people believe, behave and perform, when no one is telling them what to do. Therefore, OC is a soft side of organizational life, comprising a set of collective norms that shape the behaviour of people in the organization, and is characterized by member's shared ability to understand specific concepts, terms, signs and language within the organization (Karathanos, 1998). Culture is taught to new members through socialization, as a way to behave, thus perpetuating organizational mission, adaptability, involvement, consistency thus, representing a key organizational resource capital (Maull et al., 2001; Denison & Mishra, 1995). Corporate culture has a major impact on a company's ability to carry out objectives and plans, especially when it is shifting its strategic direction (Schwartz & Davis, 1981:47), and it is the most important variable with regard to creating and supporting sustainable bottom-line results (Fisher & Alford (2000). However, OC can also work against organizations by creating barriers which prevent attainment of corporate goals, objectives and strategies (Robbins, 2002; Armstrong, 2006).

3.2 Effects of Organization Culture on HR Strategic Orientation

Being a soft capital and a determinant of organizational attitude and behaviour, it goes without question that OC and HR practices are inter-twining resource capabilities, with abilities to influence, shape, re-shape and determine each other, and subseqently serve the needs for dynamic capabilities. Values are beliefs on what is best for the organization and what ought to happen. Norms are unwritten rules that prescribe appropriate behaviour. These two inform and underpin the mission, goals and objectives of the organization . and subsequently determine the organizational HR philosophies, programmes, policies, practices and processes for achievement of its objectives (Armstrong, 2006). Cultures which value acquiring of organizational knowledge or competencies influence and enhance the firm's career development, information sharing, team-working, socialization and induction, among other HR practices for performance (Keegan & Turner, 2001). A culture that values innovation, offers direction for employees to develop their skills, be creative and learn new innovations, thereby, determining the orientation of organizational core HR practices (staffing, comprehensive training and development of firm specific skills; specialization programmes, job enrichment, and cross functional career paths; skill-based pay systems and developmental performance appraisal, which may be used to facilitate the development of firm specific competencies) (Lane et al., 2001; Snell et al, 1999).

A culture that enhances a firm's ability to retain its well-developed and motivated HR determines organizational HR practices, which reward employees for developmental achievement and influence employee retainance and performance, by providing incentives that elicit the required behaviours. Performance-based pay and internal promotion systems provide incentives to secure commitment from knowledge workers and employee willingness to share knowledge. In market culture, people are made to understand from the onset that ultimately their performance will be judged in terms of bottom-line results. Hard HR-oriented practices resulting thereof will drive competitiveness and profit orientation throughout the firm. The large private manufacturing firms are one such example. In clan culture, employees understand that focusing on the bottom-line and ignoring interpersonal relationship is a recipe for disaster. The soft HRM practices will therefore promote the spirit of teamwork, job security and career development among others.

3.3 Organization Culture as a Moderator

The second dimension is where organization culture is a potential moderator. Although section 2.3 reiterates the value of HR and management capability, the driver for sustained superior performance in a dynamic business environment is an appropriate (supportive) culture (Wallach, 1983). A supportive (clan, entrepreneurial) culture for example, would enhance virtues of trust, friendship, commitment, encouragement, relationship-oriented collaboration, thus providing an open, harmonious and warm place to work, with friendly people who are helpful to one another. These virtues are associated with soft HR practices and are deemed as advantage creating social capabilities. That is, cultures infuse into the firm the needed self-renewal capabilities to invest, upgrade, reallocate, rejuvenate and switch their resources and capabilities themselves between the two HR orientations

In addition to having effective HR practices, necessary cultures would offer direction for employees to develop their skills, learn new innovations, or even give clear guidance for allocating firm resources for competing for the future (Hamel & Prahalad, 1994). In this case, cultural values elicit a strong sense of the need for creativity, positive and proactive attitudes towards changes and commitment to work with high degree of flexibility (Denison & Mishra, 1995; Kotter & Heskett, 1992). As a moderator, an appropriate culture enhances organization wide mission, adaptability, involvement and consistency, and thereby reducing conflict, enhancing social stability, coordinating and controlling the organization despite the prevailing diversities thus, enhancing performance. Most importantly, as most organizations widen their spans of control, flatten their structures, introduce teams, reduce formalization and empower employees due to competition (Robbins, 2002), appropriate cultures are useful vehicles for enhancing social stability and reducing conflict by enhancing adaptability, involvement and consistency. Jackson and Schuler (2000) argue that an appropriate culture that is well-matched to an organization's objectives and criteria for measuring success can enhance individual satisfaction and performance as well as organizational performance. Strong cultures provide strong guidelines and in turn influence behaviour accordingly.

3.4 Organization Culture, HR Strategic Orientation and Firm Performance

Organizational culture has been considered a soft organizational capital (Barney, 1985). The nature of its values and beliefs determine the level of employee adaptability, involvement, consistency, commitment and hence firm performance (Anthony et al., 2006; Dennison, 1996; Denison & Mishra, 1995). The basis of (any change in) organizational performance, therefore, is the change in values, attitudes and beliefs of employees as well as organizations. In showing the link between OC and performance, Schwartz and Davis (1981) and Jackson and Schuler (2000) argue that culture being a pattern of values, attitudes, beliefs and expectations, produce norms that powerfully shape the vision and behaviour of all organizational members (including leaders and managers), towards striving or not striving to achieve organizational goals.

Apart from generating and determining the business goals the HR practices, culture elicits the commitment and other necessary climatic conditions for supporting the achievement of desired organizational objectives (Armstrong, 2006). It increases consistency of employee behaviour in this direction; it enhances social system stability in the organization and holds the organization together in pursuit of aspired goals. In addition, OC controls all mechanisms, guides and shapes attitudes and behaviour of employees and points everyone in the same direction. It drives and maintains the rhythm, and facilitates innovation, risk-taking and attention to detail. Above all, culture determines employee's rights. By placing great value on employees and the worth of each individual, culture enhances employees' morale and motivation. Innovative culture induces a new way of thinking and behaviour that creates, develops and establishes values and attitudes within an organization. This in turn raises, accepts and supports ideas and changes involving an improvement in the functioning and efficiency of the organization, even if such changes may mean a conflict with conventional and traditional behaviour (Anthony et al., 2006).

Without the support of an appropriate culture, HR practices will not function to their fullest gear to facilitate organization-wide performance. It is argued that to perform viably, firms need to shift from looking at skills and process behaviour and examine corporate values, attitudes and beliefs of its greatest asset — its people. Any change in the organization starts with its people, and by extension, their change of attitude. The management must adapt to new, flexible and competitive ways of doing things and the employees need to feel secure enough in the new approaches to go about their work (Lee & Zemke, 1993). Schrivastava (1985:105) and Lankford and Mintu-Wimsatt (1999:5) submit that culture is the most critical factor that influences behaviour in the organization. It influences knowledge creation and sharing, the formulation and implementation of strategies for achievement of organizational goals. A culture that enhances the firm's ability to retain its well-developed and motivated HR strengthens the impact of HR practices on firm performance. Ultimately, culture generates and reinforces the necessary organizational climate for performance.

CHAPTER FOUR

COMPETITIVE STRATEGY

4.1 Competitive Strategy- Defined

Competitive strategy is the formulation and implementation of viable business actions and counter-actions, within organizational missions for achieving business objectives and goals (Andrew, 1971; Zahra, 1993; Jackson & Schuler, 2000; Anthony et al., 2006). It is the pattern of managerial moves, approaches as well as action plans for achievement that explicitly recognizes the competition and the impact of the outside environmental forces (Thompson & Strickland, 2003). The essence of competitive strategy is choosing to perform activities differently from competitors and in response to environmental needs (Porter, 1996). It is the creation of advantage and also the creative destruction of the opponents advantage (D'Aveni, 1994). Ultimately, competitive strategies position businesses within the industry/market place, and the collective strength of this positioning determines firm performance (Porter, 1979, 1980, 1985, 1996, 1998; D'Aveni, 2002). Arguably, corporate level strategies have implications for how the firm is structured, and competitive strategy is firm specific, describing how a firm competes against its rivals offering the same products.

4.2. Competitive Strategies and their Effects on HR Strategic Orientation

In a dynamic business environment, competition is the essence of business strategy. In linking competitive strategy to firm performance, Miles and Snow's (1978, 1984), identified typologies of business strategies with respect to four competitive characteristics, and argued that HR practices must be tailored to the demands of competitive strategy. They noted that successful firms display a consistent strategy supported by complementary organizational structure and management process. The four competitive strategies are discussed hereunder:

4.2.1 Defender Strategy

This type of strategy focuses on low-cost production of high quality products/services within narrow but competitive market. To perform viably and protect the narrow market, aggressive mechanisms of high degree formalization and standardization of jobs and tasks, which are routine-based, are adopted. The strategy demands for aggressively trained professionals/specialists in the industry, to produce and market this narrow line of products/services effectively. There is minimal employee participation in decision- making, and firms neither search for new opportunities, nor do major adjustment in technology or structure, but devote their attention to improving on efficiency of operations. Based on these strategic business demands, firms adopt sets of competitive practices, processes and systems that engage in little recruitment of HR above entry level through hard HR practices. By demanding for limited HR planning exercises, seniority-based compensation and process-oriented performance appraisal, the defender strategy determines the firm HR orientation.

4.2.2 Prospector Strategy

This strategy focuses on product/service innovation in changing markets. Firms adopting this strategy are always engaged in innovation most of the time. As a result, they are in continuous search for new products/markets and creating new products/services, with low degree of standardization, routinization and mechanization, based on low specialization but with greater employee participation. Best examples include IBM and new AT& T. This strategy demands for aggressive entrepreneurial practices of attracting and retaining employees, who can take risks to develop new products and markets. Other prospector-determining HR practices include: outcome-based compensation, limited training and development are adopted to meet the ever-changing need for relevant talent/professionals.

4.2.3 Analyzer Strategy

This strategy is a hybrid in nature, and it entails having a split personality: having one product line in stable market and one in changing market. The product in stable market operates routinely, but that in rapidly changing market, the firm closely watches their competitors and then adapts the best they can. That is, focusing on cost containment in some areas of the business and product market innovation in others. Firms adopting this strategy maintain stable and limited line of products/services, while at the same time moving out quickly to follow carefully selected set of more promising new developments (products, ideas, technology) in the industry, focusing on efficiency and productivity only when the market is stable. However, during turbulent times, they watch competitors for new ideas which are rapidly adopted. Because this strategy values both stability and innovation in employees, firms adopt and make greater use of planners and analyzers The strategy determine use of dynamic HR practices and systems, including, rewarding failures, encouraging participation, knowledge sharing to facilitate attainment of business objectives depending on the unit in which employees work (Anthony et al., 2006).

4.2.4 Reactor Strategy

Reactor is being an adopter of non-viable competitive strategy that comprises a simple set of inconsistent and inappropriate reactions to environmental crisis. Basically, this implies top management's reluctance to commit themselves to a specific strategy for the future (Robbins, 1990). This translates to poor performance, traceable to: lack of consistent HR approaches due to lack of a consistent product/service/market orientation; not being aggressive in maintaining established products, services, markets and resources as competitors and not willing to take risks or even be proactive, but opting to respond reactively to any HR practices, approaches and processes based on environmental pressures. Empirical findings show that in applying this competitive typology in their study, Gimenes at al (downloaded 25/1/03) opine that analyzer strategy was the most employed with 44%; followed by prospector, reactor and defender with 22.9%, 18.3% and 14.7% respectively.

4.3 Porter's Competitive Strategies

Porter (1980, 1985, 1998), Certo and Peter (1995) have also presented a view of generic strategic approaches on how to compete in the industry/marketplace and achieve superior performance. These strategic postures in turn determine management practices and help firms to compete effectively in an industry. Porter's generic strategies consist of three basic business level postures, and are applicable to a variety of organizations in diverse industries, depending on the prevailing environmental constraints. They represent two dimensions- the strategic target (competitive scope) which indicates how widely the product/service is intended to compete, either throughout the industry (broad target) or within a particular market niche (narrow target). The other dimension is strategic advantage, which indicates the basis on which the product is intended to compete, either on the basis of uniqueness, as perceived by the customer or low cost to the customer, as discussed hereunder.

4.3.1 Cost Leadership Strategies (CLS)

Cost-leadership strategies emphasize consistency on efficient (low cost) production of goods or services. This strategy is most appropriate for firms with high volume of production facilities and relatively high market share in their industries. Firms applying this strategy take advantage of proprietary technology, and preferential access to raw materials (leveraging on experience/economies of scale) (Porter, 1980, 1985; Certo & Peter, 1995). At equivalent or lower prices than the rival, a cost leader's low-cost position translates into higher returns. CLS determines the use of the following practices: use of HR part-time employees, work subcontracting, work simplification and measurement procedures, outsourcing services, job assignment flexibility and reduced training and development, research and development and employee rightsizing facilitate reducing operational costs or output cost per employee (Robbins, 1990).

4.3.2 Differentiation Strategy

Through differentiation strategy (DS), the firm is under obligation offer unique offerings in terms of products/services, which are of value to customers, to permit charging of premium prices. Firms practising DS develop unique brand images, features, distribution channels and customer services, which are aimed at increasing/building brand loyalty. The differentiator has in mind the average cost in the industry when costing, and the premium prices charged will lead to above average profitability (Porter, 1985; Certo & Peter, 1995). Firms employing this strategy implement HR practices that build the organizational capacity in marketing, research and development, training and development, manufacturing skills or other related areas, hence building personnel who are highly skilled, creative and talented. They include: Mercedes-Benz, BMW and other luxury car makers (Anthony et al., 2006).

4.3.3 Focus Strategy

Firms applying this posture may focus on a narrow segment of the market, to gain advantages of the market over the more broadly set of competitors. Cost focus entails exploiting differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Hence, the focuser takes care of the neglected needs of these segments to achieve superior performance by dedicating itself to the segment exclusively. The essence of focus is the exploitation of a narrow target's differences from the balance of the industry. When/if a firm achieves sustainable cost-focus leadership or differentiation focus in the segment, which is structurally attractive, the focuser will be above average performer in the industry (Porter, 1980, 1998). By focusing on low-cost production, or high differentiation in the market segments it serves, or focusing on certain buyers, products or geographic locations. These factors determine the HR practices.

4.3.4 Stuck in the Middle

Getting stuck in the middle is avoiding the two extremes (CLS and DS), a demonstration of lack of the determination, the capacity and capability to operate outside the known box, either due to lack of talent, capital, and market share among others. Firms that employ this strategy merely wonder from one strategy to another in the middle, and do poorly in each, resulting in poor performance.

4.4 Competitive Strategy as a Moderator

In applying the contingency view, an organization's competitive strategy can moderate the effects of HR practices on firm performance (Hitt et al., 2001; Huselid, 1995; Schuler & Jackson, 1987). The core of this argument is the concept of fit or integration of a firm's strategy and its internally consistent pattern of HR practices to form an employment system. Implicitly, without strategy HR practices cannot form a system. In section 4.3, firms can compete on the basis of two generic strategies: differentiation and cost leadership (Porter, 1985).Whereas the differentiation strategy lays emphasis on recognition of value towards customer needs, cost-leadership strategy focuses on cost structure in competing with other firms in the industry or segment target. Since innovative strategies focus on offering something new or different, the strategy moderates firm's HR priorities, practices, processes and systems through: selecting highly skilled and creative individuals, granting more discretion with minimal control, and allowing a long-term focus.

The cost-cutting strategy demands the adoption of HR strategy, systems and practices that refrain from incurring unnecessary innovation or market expenses and cut prices in setting a basic product, including: outsourcing of services, use of part-time employees, sub-contractors, work measurement among others. In this case, people management then becomes an integral part of corporate strategy in producing high performance. Thus, competitive strategy can proactively or reactively determine HR strategy, and thus influence the effectiveness of firm performance.

4.5 Competitive Strategy, HR Strategic Orientation and Firm Performance

Although the existing literature does not seem to reveal a conclusive answer on the relationship between competitive strategy and HRM practices, some studies have reported a positive link while others have found negative relationship. Shrader and Schwenk (1993), Armstrong (1982), Hoffer et al., (1978) found a positive relationship. However, Shrader, Taylor and Dalton (1984) found a negative relationship. Generally, the ability to perform in large firms is attributed to formal strategic planning, which depends on the capacity and capability of the firm. Capability and capacity is explained in terms of soft (behavioural dimensions) and hard elements (analytical and technical dimensions). Argyris (1989), Bonoma (1984) aver that creating strategic fit between the soft and hard elements of organizational strategic variables results in higher performance

Quality enhancement strategy (QES) seeks to enhance the product quality, and as the product demand increases with quality, so does the return on investments and market-share. Firms pursuing cost control strategy refrain from incurring unnecessary innovation or marketing expenses and cut prices in selling a basic product. Other cost-reduction strategies include: use of part-time employees, subcontractors, work simplification, measurement procedures and job assignment flexibility (Robbins, 1990; Schuler & Jackson, 1987) The bottom-line is that firm performance is determined by the competitive strategies adopted, which enable firms to develop appropriate practices and processes to respond proactively to new challenges, with greater speed and efficiency. Thus, dynamic business contexts call for dynamic competitive strategies, which facilitate renewing and rejuvenating firm practices, and processes in conjunction with changing conditions. In so doing, the strength of a firm's original strategic assets, resources and capacities, are not nullified by the changing competitive profile. Pursuant to Porter's (1985) value-chain theory and RBV (Peteraf, 1993; Pringle & Kroll, 1997) and the contingency/best fit view (Baird & Meshoulam, 1988), the strategic value of two or more co-specialized organizational resource capabilities provide greater mutual reinforcing effect on firm performance. Chapter five examines the effect of co-specialized organizational resource capabilities on the relationship between HR strategic orientations and firm performance.

CHAPTER FIVE

MODERATING EFFECTS OF ORGANIZATIONAL CULTURE AND COMPETITIVE STRATEGY ON THE RELATIONSHIP BETWEEN HUMAN RESOURCE STRATEGIC ORIENTATION AND FIRM PERFORMANCE

The joint moderating effect is the essence of complementary and co-specialized resource approach. The effect of two organizational resource capabilities (organizational culture and competitive strategy) is theorized to promote co-specialization and imperfect imitability, according to resource based view (RBV). RBV theorists argue that even if a co-specialized resource is imitated, the value of such a resource to the imitating firm is reduced drastically because of co-specialization (Pringle & Kroll, 1997; Chi, 1994; Peteraf, 1993). Hence, the risk of losing certain resources and competitive advantage is drastically reduced. Most importantly, the strategic value of co-specialized resource capabilities is greater if the resources are mutually reinforcing in effect. In this regard, organizational culture and competitive strategy are potential co-specialized, moderating and complementary resources, which may serve the role of dynamic and complementary resource capabilities of the firm.

As a co-specialized and complementary resource, culture is perceived as both the means to effective organizational performance, through the medium of strategy, and a potential barrier inhibiting required strategic realignment, which can adversely affect strategy implementation (Kahn, 1998, Robbins, 2002). DeLong and Fahey (2000) opine that any changes in the strategy must be accompanied by corresponding changes in organizational culture; otherwise the strategy would fail hence affecting performance as well. In this case, culture and strategy are co-specialized and complementary organizational resources. Lorsch (1986) found that culture supported the strategy in 12 most successful companies. He concluded that culture is both the means to effective organizational performance, through a medium of strategy, and a potential barrier inhibiting required strategic re-alignment, which can adversely affect strategy implementation. A study undertaken by Sluti et al., (1995) and Klein et al., (1995) established that a strong culture could improve the quality and operational performance of business, as well as service quality when business is as usual. Olson et al., (2005) in their research on export planning of performance in firms, established that culture which supports formal planning has a better export performance. Similarly, Miles and Snow (1978, 1984) observe that fitting HR practices on strategy enhance firm performance. Implicitly, culture and strategy are co-specializable, complementary and mutually reinforcing capabilities.

As a moderator in a joint venture, culture serves to mobilize, allocate and leverage firm resources in achieving organizational goals through appropriate values, behaviours, management systems, and visionary planning (Barney, 1985). Through organizational values, employees form an overall subjective perception of the organization based on such factors as risk tolerance, team emphasis and support for people. These overall perceptions determine the success in employee fitting into the organization (adaptation); their levels of motivation and commitment; and the overall performance of individuals and the firm (Robbins, 2002). Thus, culture determines employee's adaptability and involvement in organizational work, their consistency in performance and their integration into the organization's mission and activities (Huselid, 1995; Denison & Mishra, 1995; Pfeffer, 1998). Competitive strategy serves to provide the pattern of major business objectives, purpose, goals and essential policies and plans for achieving these goals (Andrew, 1971; Zahra, 1993; Jackson & Schuler, 2000). Through planning (a guide or course of action into) the future is determined, putting resources (including HR, finances) into proper use; managers pursue relevant business options and make viable business decisions, to keep the firm focused in real competition, and employees focus on their tasks and job roles. Other facets of strategy- extensive training, capacity development and reward strategies enhance employee trust and commitment levels and hence firm performance.

Arguably, dynamic business contexts call for extra ordinary approaches to business management. Although HR strategic orientation, superior HR and management capability are important, in competitive business contexts, the driver for sustained performance is the HR strategic orientation, catalyzed by appropriate organizational culture and relevant competitive strategy. The two moderating organizational capabilities provide the needed self renewal capabilities to invest, up grade, re-allocate and rejuvenate the resources and the capabilities themselves, ahead of and/or through the competition. In fact, each of the capabilities is a resource in terms of its value, rareness and imperfect imitability (Barney, 1997). Arguably, given the mutuality of these two capabilities, it is conceptualized that their co-specialization give the organization the ability to continuously identify, upgrade, rejuvenate and reinvent valuable resources and practices, reinforcing and enhancing their value and strength, thus causing sustained cost disadvantages to competing firms. With properly aligned aims and purposes, the joint effect of these two organizational resource capabilities will complement one another significantly, eliciting the greatest strategic value, based on their mutual reinforcing effect. The firm benefits from the mutual effect of these capabilities, which provide a reinforcing spiral effect that sustains and strengthens its competitive power.

CHAPTER SIX

FIRM PERFORMANCE AND ITS MEASUREMENT

6.1 Firm Performance - Defined

The concept of organization performance is the most widely used dependent variable in organizational research, yet it remains vague and loosely defined (Rogers & Wright, 1998). Porter (1980) defines performance as 'the above average rate of return sustained over a period of years. It also refers to outcomes from organization's operations seen in terms of productivity, cost effectiveness, timeliness and HR outcomes. Good performance influences the continuation and growth of a firm. In the past, the focus of performance was mainly financial measures. Today, the performance concept incorporates both financial and non-financial measures such as profitability, market share, customer satisfaction, and new products. This is in line with the multidimensionality of business performance as highlighted by a number of studies (Venkataraman & Ramanajan, 1986; Dess & Davies, 1984).

The financial indicators are important but provide only a limited view of a company's total value. Non-financial measures such as the quality of management, customer retention, research and development (R&D), innovation, are valid indicators of internal operating performance and achievement. Dyer and Reeves (1995) have proposed three possible types of measurement for organizational performance namely: HR management outcomes (employee turnover, absenteeism, job satisfaction); organizational outcomes (productivity, quality, service); financial performance outcomes (return on assets, profitability) and capital market outcomes (stock price, growth, returns). Their notion is that outcomes are hierarchical, and outcomes at one level impact on those at the next level. For this paper, organizational factors determine HR practices and moderate the relationship between HR practices and firm performance

In essence, performance of an organization is gauged using several indicators both qualitative and quantitative, including: financial performance, meeting customer needs, building quality products and services, encouraging innovations and creativity, and gaining employee commitment (Fry et al., 1998). The extent to which an organization succeeds in these areas determines its performance. Performance measures are also cost-oriented or noncost oriented and can be internal or external. Although objective measurement of performance plays a key role in strategic research, there is a considerable debate on the appropriateness of various approaches to the measurement of organization performance. Youndt et al., (1996) admit the difficulty in obtaining objective measures of performance in organizations, since some organizations doctor their results for strategic reasons. Also when dealing with organizations in different sectors, standardization is not possible although asking managers to assess their own performance relative to others in the same industry or sector is acceptable. In the circumstances, the use of multiple items and multiple respondents (triangulating respondents) to assess performance minimizes the effects of random errors. Nevertheless, organizational performance is enhanced when there is a good 'fit' between management style and various contextual factors (Khandwalla, 1977). Performance has been operationalized as hereunder.

6.2 Financial Performance

Financial performance is at the core of organizational effectiveness domain. Such performance measures are considered necessary, but not sufficient enough to define overall effectiveness. Accounting based standards such as return on assets (ROA), return on sales (ROS), return on equity (ROE), are used as measures of financial success (Packer, 2000), they tap current profitability.

6.3 Business Performance

Business performance measures include market-related items such as market share, growth, diversification and product level development (Gray, 1997). This measure presents two dimensions: the first dimension consists of those indicators related to growth/share in existing business, for example, sales growth and market share. The second dimension comprises those indicators related to the future positioning of the firm, including, new product development and new market diversification.

6.4 Organizational Effectiveness

Organizational effectiveness measures are closely related to stakeholders, and they include such aspects as employee satisfaction, commitment, quality and social responsibility. Two dimensions emerge in this category: those indicators that are related to quality and social responsibility, for example, product quality, employee satisfaction, overall quality, and those indicators that are related to social responsibility. Although firm performance plays a key role in strategic research, there is a considerable debate on the appropriateness of various approaches to the concept utilization and measurement of organizational performance. The complexity of performance is perhaps the major factor contributing to the debate (Beal, 2000). Nevertheless, objective measures of performance are preferable to subjective measures based on manager's perception (Beal, 2000).

CHAPTER SEVEN

CONCEPTUAL MODEL, HYPOTHESES OF THE STUDY AND CONCLUDING REMARKS

7.1 Conceptual Model and Hypotheses of the Study

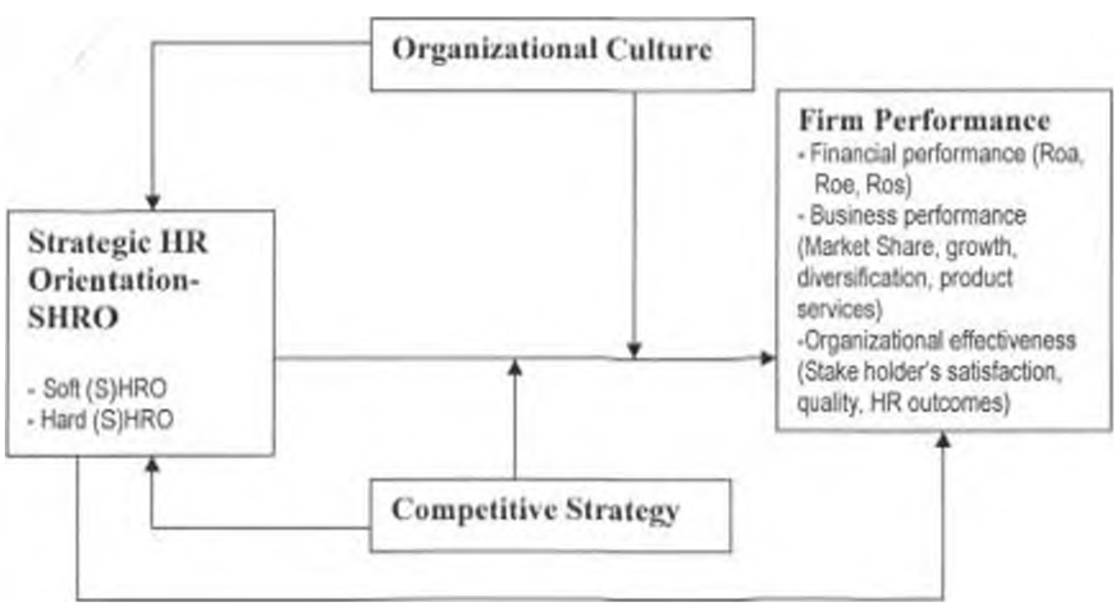
This paper is informed by HR strategic orientation, organizational culture and competitive strategy theories, and built on RBV (Barney, 1991, 1997) and contingency/best fit perspectives (Miles & Snow, 1978, 1984; Baird & Meshoulam, 1988). The paper has also integrated the dynamic, co-specialized and complementary resource perspectives into a model of the relationship between HR strategic orientation and firm performance. In the model, HR strategic orientations, culture and competitive strategy and firm performance are independent, moderating and dependent variables respectively.

Although HR practices serve to attract, retain, motivate, develop and use HR effectively in the firm (Coff, 1997; Kamoche, 1996; Mueller, 1996), the choice of HR orientation depends on business missions, internal resources and environmental factors. Organization culture serves to mobilize, allocate and leverage resources in achieving organizational goals through values, behaviours, management systems, decision criteria and visionary planning (Barney, 1985). Competitive strategy serves to formulate and implement viable business actions and counter-actions, for achievement that explicitly recognizes the competition and the impact of outside environmental forces (Thompson & Strickland, 2003). Thus, the essence of competitive strategy is choosing to perform activities differently in response to environmental needs (Porter, 1996); creating advantage; and creative destruction of the opponent's advantage (Andrew, 1971; Zahra, 1993; D'Aveni, 1994).

Thus, when business is not as usual, organization culture and competitive strategy provides dynamic and mutually reinforcing spiral effect that determines organizational HR practices, and moderates the relationship between HR strategic orientation and firm performance. Arguably, in addition to possessing superior HR and management capabilities, businesses need appropriate culture(s) and relevant competitive strategy (ies), to determine the firm's HR strategies and practices that facilitate renewing and re-allocating organizational resources and assets, in conjunction with changing environment. These capabilities enhance the strength of a firm's original strategic assets, and hence its performance, which if ignored, can be nullified by the changing competitive profile (Barney, 1991). Business firms that gain this strategic capability can control their destiny and cause sustained cost disadvantages to competitors and thus achieve superior performance, the changing business contexts notwithstanding. The success of Japanese and American firms in terms of productivity and quality of goods and services is attributed to their strategic management approaches, cultures and work systems.

From the reviewed literature, the effects of organizational culture and competitive strategies on HR strategic orientation have not been studied at least in the developing world, hence their individual and joint effect is not known. Also the joint effect of organizational culture and competitive strategy on the relationship between HR strategic orientation and firm performance has not been studied, hence the conceptual model presented below:

Fig. 1: A Conceptual Model of the Relationship between Human Resource Strategic Orientation, Competitive Strategy, Organizational Culture and Firm Performance



A Model of the relationship between HR strategic orientation and firm performance was adapted from Guest et al., (2000b) in Armstrong (2006) and Kidombo (2007) but remodeled to include two behavior-moderating variables (organizational culture and competitive strategy)

The conceptual model in figure 1 suggests that there is an interrelationship among the variables. The model suggests that when business is as usual (there is no competition). HR strategic orientation links directly to firm performance. However, when business is not as usual, two behaviour changing organizational variables (organizational culture, and competitive strategy) may determine the HR strategic practices, processes and systems adopted by a firm. Subsequently, these capabilities may create dynamic attitudes and behaviour necessary for competition, thus, moderating the relationship between HR strategic orientation and firm performance. An empirical study would determine this assertion.

In the past, researchers have carried out studies on some of these linkages (particularly in the developed world setting), by examining the effect of individual variables. Kotter and Heskett (1992); Lakhe and Mohanty (1994); Peters and Waterman (1982); Denison and Mishra (1995) support a positive relationship between culture and performance, while Hofer et al., (1978); Armstrong, (1982); Bracker and Pearson (1986); Shrader and Shwenk (1993) assert that strategy and performance have a significant positive relationship.

Rodriquez and Ventura (2003) established that make HR system (equivalent to soft HRM) had a positive effect on employee turnover, morale and hence firm performance. However, they did not explain how the linkage comes about. Other studies have focused either on the contents of HR practices or generic HR practices. Kidombo's (2007) study focused on HR strategic orientation organizational commitment and firm performance in large private manufacturing firms in Kenya. This study (which did not incorporate culture and strategy as moderators) established among other things that affective commitment and control-oriented HR systems make a greater individual contribution to performance in large private manufacturing firms in Kenya. The researcher recommended a similar study in public firms and to incorporate organizational variables.

Most of the studies were done in the developed world, using one or a few generic HR practices, hence their findings and applicability in the developing world is still a hypothesis. This paper has incorporated the hard and soft HR orientations consistent with the dynamic trends in the management of human capital in the world, the dynamic nature of human behaviour, and given the dynamic and competitive context of the business landscape, which signifies that business is not as usual. These two orientations have been theorized to enhance firm performance in the developed world. An empirical study, especially in public institutions in the developing world, which have recently adopted the enterprise culture, will determine the effect of hard and soft HR strategic orientations on firm performance in a developing world setting, given the moderating effect of organizational resource capabilities. Hence, the following probable hypotheses:

H_1 Hard and soft human resource strategic orientation will be positively related to firm performance.

H_2 Organizational culture will determine the HR strategic orientation of the firm

H_3 Competitive strategy will determine the HR strategic orientation of the firm

H_4: The extent of the relationship between HR strategic orientation and firm performance depends on the joint effect of organizational culture and competitive strategy.

7.2 Concluding Remarks

This paper argues that today, the business landscape is not just dynamic but competitive as well, and firm performance is not guaranteed any more by traditional related organizational factors (market, technology, patents and access to capital), which have since been weakened by globalization and related economic changes. Businesses are, therefore, operating in an environment that is constantly being transformed by several factors including globalization, cut-throat competition, changing customer and investor demands and rapid diffusion of new technology. As firms continue to face a myriad of challenges, effective performance is arguably dependent on other intangible sources of competition and the ability to engage in new forms of competition. One such source and form is the HR strategic initiative and the management capability of HR among other organizational resources.

This literature review has examined the subject of business performance in a dynamic context, and discussed the role of HR strategic practices and their effect on firm performance. It has also examined behaviour-changing organizational resource capabilities and their effects on determining HR strategic orientation, and their moderating effect on the relationship between HR strategic orientation and firm performance. The paper has placed greater emphasis on the dynamic, co-specialized and complementary organizational resource approaches, underpinned by the invisible asset of an effectively employed HR system, arguing that businesses can benefit from the mutual and complementary effect of the two resource capabilities, which provide a dynamic and reinforcing spiral effect that sustains and strengthens a firm's competitive power. Appropriate culture(s) and relevant business posture(s) facilitate renewing and reallocating organizational resources and assets, in conjunction with changing environmental conditions. By so doing, they enhance the strength of a firm's original strategic assets, in the phase of changing competitive profile(s). The literature on the superiority of both soft and hard HR practices and how they lead to superior firm performance is largely unclear though. Empirical research on the nature of linkage between soft HR practices and firm performance has not provided conclusive and systematic relationship especially in developing world's public institutions/enterprises. On the contrary, it has provided mixed results in the developed world' private large-scale manufacturing sector (Kidombo, 2007; Rodriquez & Ventura, 2003; Truss, 1999).

7.3 Future Research Directions

The review has identified areas that have not received adequate research attention. They include: demonstrating the linkage between several HR practices and firm performance in a dynamic business environment, in a world setting outside the developed world, given the influence of organizational factors like strategy, culture, technology, leadership among others. Previous studies have focused only on one or a few generic HR practices as the main independent variable(s), and have ended up with exploratory phase results, which are quite deficient, considering that they show a spurious significant relationship with performance. The applicability of these findings across the world and industries remains to be a hypothesis. The natural progression demands an examination of the impact of many HR practices simultaneously, so that their independent effect is better understood in the developing world.

It would also be of interest to replicate empirical studies investigating the linkage between HR practices and firm performance, particularly given the effect of organizational behaviour-changing factors on this relationship, in the developing countries. Such studies could incorporate the impact of the relative differences in institutional framework, political, size, age and culture between the two settings as part of the replication with extension. There is need to establish and address the issue of causality effectively, in order to rule out the possibility that organizations performing well adopt a greater number of high quality HR practices. Adoption of longitudinal research designs that include other organizational attributes, related to HR practices and organizational performance, would provide more accurate estimates of the full effect of HR practices on organizational performance. In addition, the theoretical contribution of RBV has inherent gaps due to its relative lack of dynamism. More empirical research is needed to understand the theoretical contribution of RBV to strategic human resource management and to test its theoretical propositions. This would facilitate founding (a) relevant theory (ies) to facilitate future (S) HRM research.

In conclusion, this paper has discussed the subject of linkage between HR strategic orientation and firm performance and the effects of organizational culture and competitive strategy on HR strategic orientation, and their moderating effect on the relationship between HR strategic orientation and firm performance, from theory and empirical studies done in the developed world. It has traced the basis of models of soft and hard HR practices and reviewed theories that have been developed to address the subject of performance based on the role of superior HR and management capabilities of the firm. It has also reviewed literature on the dynamic and co-specialized organizational HR capabilities and their role on performance, and concluded the discussion by highlighting areas of research gaps. Finally, it would be interesting to replicate studies conducted in the developed world on HR practices and firm performance in developing world, taking into account the impact of institutional, political, cultural and other differences between the two world settings. Last but not least, the model at figure 1 if tested as presented or otherwise, it may provide more insights into the theorized relationship as conceptualized, and thus, contribute to knowledge.

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