

**((The Moderating Effects of Organizational Structure and
Human Resource Strategy on the Relationship between Business
Strategy and Firm Performance ✓**

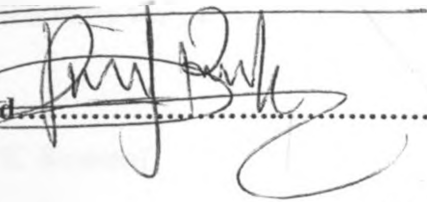
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**Independent Conceptual Study Paper Submitted in Partial
Fulfillment of the Requirements of Doctor of Philosophy Degree,
Department of Business Administration, School of Business,
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September 8th, 2008

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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This project has been submitted for examination with my approval as university supervisor.

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J. R. Busienei

DEDICATION

This work is dedicated to my wife and children: Chemutai, Kipkemboi and Jerop for their inspiration.

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I would like to extend my gratitude to many people including my colleagues who assisted me during the writing of this paper. I extend special thanks to my supervisor, **Professor P.O.K'Obonyo** for his expert guidance and encouragement. I am particularly grateful to him for taking time to help me nurture an initially obscure and unclear idea to something worth considering in the modern field of human resource management. I also appreciate the contribution of **Dr. Martin Ogutu** for reading and making valuable comments on the draft. My colleagues in the **HRM** class also deserve special thanks for their positive criticisms, encouragement and for being such a motivating and inspiring audience throughout the course.

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ACRONYMS

SHRM	-	Strategic Human Resource Management
RBV	-	Resource Based View
HRM	-	Human Resource Management
VRIN	-	Value, Rarity, In-imitability, Non-substitutability
HR	-	Human Resource
IV	-	Independent Variable
DV	-	Dependent Variable
MV	-	Moderating Variable
QWL	-	Quality of Work Life
BRIJS	-	Brayfield and Rothe Index of Job Satisfaction
MSQ	-	Minnesota Satisfaction Questionnaire
THRM	-	Traditional Human Resource Management
HPWP	-	High Performance Work Practices

ABSTRACT

Although a number of speculative and controversial articles have been written on strategic human resource management (SHRM) practices during the past decades, very little evidence is available regarding the effects of strategic management approach to the relationship between business strategy and firm performance. While most articles have identified two major streams of research in the strategic human resource management literature, including: (a) the link between business strategy and human resource (HR) practices and (b) the link between HR practices and firm performance, this paper has identified, (i) the major link between the business strategy and firm performance, (ii) the moderating effects of the HR strategy and organizational structure on the link between the business strategy and firm performance, (iii) the link between business strategy and HR strategy and (iv) the link between HR strategy and firm performance. Drawing on the Resource-Based View (RBV) of the firm, I posit that both internal and external organizational factors affects the way businesses strategically manage human resources information for competitive firm performance in a dynamic business environment. This paper would review and evaluate recent management articles on strategic human resource management to built on the conceptual framework/concept model and further enhance on the theoretical underpinning of the research problem. In the methodology section, the researcher would apply the survey research design because it is best suited for this study. Based on the data analysis and presentation towards validity and reliability in research, the researcher would be able to objectively state the findings, provide recommendations and suggest areas for further research.

CHAPTER ONE

INTRODUCTION

1.1 HUMAN RESOURCE MANAGEMENT PRACTICES

The effects of human resource management (HRM) policies and practices on firm performance is an important topic in the fields of human resource management, industrial relations, and industrial and organizational psychology today (Huselid, 1995; Wan-Jing & Huang, 2005; Khatri, 2000; Amit, & Schoemaker, 1993). An increasing body of work contains the argument that the use of High Performance Work Practices (HPWP), including comprehensive manpower planning, employee recruitment and selection procedures, incentive compensation and performance management systems, extensive employee involvement and training, including team-based job design, flexible workforce, quality improvement practices, and employee empowerment, can improve the organization's knowledge, skills, and abilities of a firm's current and potential employees, to increase their motivation, reduce shirking, and enhance retention of quality employees while encouraging non-performers to leave the firm (Huselid, 1995; Pfeffer, 1994).

Arguments made in related research are that a firm's current and potential human resources are important considerations in the development and execution of its strategic business plan (Huselid, 1995; Johnson & Scholes, 2000). This literature, although largely conceptual, concludes that human resource management practices can help to create a source of sustained competitive advantage, especially when they are aligned with a firm's competitive strategy (Huselid, 1995; Wan-Jing & Huang; Johnson & Scholes, 2000). In both this largely theoretical literature and the emerging conventional wisdom among human resource professionals, there is a growing consensus that organizational human resource policies, principles and practices can, if properly configured, provide a direct and economically significant contribution to firm performance (Huselid, 1995; Johnson & Scholes 2000: 489).

1.2 STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM)

Rapid environmental change, globalization, competition to provide innovative products and services, changing customer and investor demands have become the standard backdrop for organizations (Huselid, 1995; Wan-Jing & Chun Huang, 2005; Becker & Gerhart, 1996; Amit, & Schoemaker, 1993). To compete effectively, firms must constantly improve their performance by reducing costs, enhancing quality and differentiating their products and services (Ansoff, 1991; MacDuffie, 1995; Amit, & Schoemaker, 1993). Recent studies have examined strategic human resource management as a means of enhancing organizational competitive advantage. Scholars and practitioners have widely adopted this approach to organization strategy planning. The underlying assumption of SHRM is that firm performance is influenced by a set of HRM practices and that this assumption has been supported by recent empirical evidence (Arthur, 1994; Huselid, 1995; Wan-Jing & Chun Huang, 2005; MacDuffie, 1995; Amit, & Schoemaker, 1993). However, important questions remain, including whether SHRM guarantees positive firm performance outcome, the effect of different levels of SHRM implementation on firm performance, and the influence of the market environment in moderating the relationship between SHRM and firm performance (Arthur, 1994; Huselid, 1995; Wan-Jing & Chun Huang, 2005; MacDuffie, 1995; Amit, & Schoemaker, 1993; Nkomo, 1992).

1.3 SHRM PRACTICES AND COMPETITIVE ADVANTAGE

According to Armstrong (2006: 114-117), SHRM is an approach to making decisions on the intentions and plans of the organization in the shape of the policies, programmes and practices concerning the employment relationship, resourcing, learning and development, performance management, reward management, and employee relations. Armstrong, (2006) said that the concept of SHRM is derived from the concepts of HRM and strategy. It takes the HRM model with its focus on strategy, integration and coherence and adds to that, the key notions of strategy, namely, strategic intent, resource-based strategy, competitive advantage, strategic capability and strategic fit (Armstrong, 2006; Huselid, 1995; Wright & Snell, 1998; Baker, 1999).

There is broad agreement that a strategic approach to human resource management involves designing and implementing a set of internally consistent policies and practices that ensure a firm's human capital (employees' collective knowledge, skills, and abilities) contributes to the achievement of its business objectives (Armstrong, 2006; Huselid et al, 1997; Taylor et al, 1996; Becker & Gerhart, 1996; Flynn, et al., 1984; Taylor, et al 1996). Fundamental to SHRM perspective is an assumption that, firm performance is influenced by the set of HRM practices firms have in place. Recent empirical evidence supports this basic assumption (Huselid, 1995; Taylor et al, 1996; Baker, 1999; Delaney & Huselid, 1996).

Paradoxically, the preliminary empirical research, which established a relationship between HRM policies and practices and firm performance, made little distinction between policies and practices that reflect the more traditional, or technical, personnel perspectives and those that reflect the adoption of the SHRM perspective (Huselid et al, 1997; Taylor et al, 1996; Becker & Gerhart, 1996; Lengnick-Hall & Lengnick-Hall, 1988; Flynn, et al., 1984). Moreover, prior work has not considered the types of capabilities of HR staffs associated with the effective implementation of these two types of HRM policies and practices (Huselid et al, 1997: 171; Baker, 1999; Taylor, et al 1996). Doty and Delery, (1996: 802-809) said that the field of strategic human resource management has been criticized for lacking a solid theoretical foundation.

1.4 COMPETITIVE BUSINESS ENVIRONMENT

A consensus has emerged among scholars and practitioners alike that the business environment has become more competitive than in the past because of globalization (Khatri, 2000, Wan-Jing & Chung Huang, 2005; Becker & Gerhart, 1996). In order to survive in this new era, businesses have to focus even harder on their competitive strengths more specifically on strategic HRM practices so as to develop appropriate long-term strategies. Khatri, (2000: 336) said that old practices and systems that have evolved over time in a relatively stable environmental context are inadequate to meet the challenges posed by the complex and dynamic business environments of today.

The issue of how to counter the dynamic environmental forces falls in the domain of strategic management research (Khatri, 2000; Huselid, 1995; Wang-Jing & Chun Huang, 2005; Plevel & Schuler et al. 1993). Broadly, strategic management attempts to match (or fit) an organization with its environment (Kotler, 2000; Kidombo, 2002). Strategic fit according to Johnson & Scholes, (2000: 5) is developing strategy by identifying opportunities in the business environment and adopting resources and competences so as to take advantage of these. The same has been echoed by Smith, et al (1991: 85) and they said that environmental analysis is one of the most critical elements of strategic planning and management. Smith, et al (1991) and Kotler, (2000) noted that firms that properly analyze the environment are much more likely to succeed than those that do not. Conversely, a major mistake, such as assuming that environmental conditions will not change, is very likely to seriously harm the firm (Smith, et al 1991: 85-172; Johnson & Scholes, 2002; Kotler, 2000).

According to Smith et al, (1991: 85) the outcome of proper environmental analysis should be an understanding of the situation confronting the company. Whereas setting objectives addresses where the firm wants to go, environmental analysis addresses what the firm is facing and allows managers to select strategies that will lead to the reaching of objectives hence strategic fit (Smith et al, 1991: 85; Kotler, 2000; Wang-Jing & Chun Huang, 2005). The argument is based on the premise that changes in the external environment trigger business strategic responses that in turn trigger human resource management strategic responses, but the nature of these responses is moderated by the HRM orientation practiced by an organization (Kidombo, 2002: 2; Becker & Gerhart, 1996; 779). Khatri, (2000: 337) said that there is a plethora of approaches suggested in strategic management literature to achieve this match or fit. The majority of them are biased in favour of economics however and thus focus predominantly on the industry determinants of organizational performance (emphasis on the external portion of the SWOT framework) (Khatri, 2000; Wan-Jing & Chun Huang, 2005; Plevel & Schuler et al 1993).

Table 1**Building Profits by Putting People First through High Commitment HRM**

Building Profits by Putting People First	High-Commitment HRM
Employment Security	And internal labour markets
Selective Hiring	And Sophisticated Selection
Extensive Training	And Learning and Development
Sharing Information	Extensive Involvement and Voice
Self-Managed Teams/Team-working	Self-Managed Teams/Team-working and harmony
Reduction of Status Difference	
High pay contingent on company performance	High Compensation Contingent on Organizational Performance

Source: From the Human Equation: Building People by Putting People First. By Pfeffer, J., Boston, MA 1998. Copyright © 1998 by the Harvard Business School Publishing Corporation, all rights reserved.

CHAPTER TWO

THEORETICAL BACKGROUND

2.1 RESOURCE-BASED VIEW (RBV) AND COMPETITIVE ADVANTAGE

The resource-based approach is an emerging framework that has stimulated discussion between scholars from three research perspectives (Mahoney & Pandian, 1992; 367). First, the resource-based theory incorporates traditional strategy insights concerning a firm's distinctive competencies and heterogeneous capabilities. The resource-based approach also provides value-added theoretical propositions that are testable within the diversification strategy literature. Second, resource-based view fits comfortably within the organizational economics paradigm. Third, the resource-based view is complementary to industrial organization research. The resource-based view provides a framework for increasing dialogue between scholars from these important research areas within the conversation of strategic management (Truss, 2005; Mahoney & Pandian, 1992; Dabu, 2007; Wernerfelt, 1995; Conner & Prahalad, 1996; Flynn, et al., 1984; Truss, 2005). Resource-based studies that give simultaneous attention to each of these research programs are suggested (Mahoney & Pandian, 1992; 367).

The Resource-Based View of the firm has been welcomed by researchers as a sound basis upon which to develop theory in the field of HRM. However, it is argued that the RBV is overly rationalistic, unitaristic and internally focused compared with what it is known about organizations from sociological and institutionalist perspective (Truss, 2005; Mahoney & Pandian, 1992; Dabu, 2007; Wernerfelt, 1995; Conner & Prahalad, 1996; Flynn, et al., 1984). Truss, (2005) said that the more recent complex adaptive systems perspective constitutes a more promising basis upon which to advance our knowledge in this area. Scholars in the area of strategic human resource management (SHRM) have increasingly drawn on the resource based view of the firm as a means of theorizing the relationship between HRM and firm performance: This theory provides a framework for viewing human resources as a pool of skills that can provide a resource to serve as a sustained competitive advantage (Truss, 2005; Mahoney & Pandian, 1992; Dabu, 2007; Wernerfelt, 1995; Conner & Prahalad, 1996).

The resource based view of the firm is an economic tool used to determine the strategic resources available to a firm (Coff, 1997; Orlando, 2000; Wernerfelt, 1984). The fundamental principle of the resource based view of the firm is that the basis for a competitive advantage of a firm lies primarily in the application of bundle of valuable resources at the firm's disposal (Wernerfelt, 1984; Orlando, 2000; Coff, 1997). Barney, (1991) suggested that to transform a short run competitive advantage into a sustained competitive advantage requires that these resources be heterogeneous in nature and not perfectly mobile. This in effect results into valuable resources that are neither perfectly imitable nor sustainable without great effort (Barney, 1991; Orlando, 2000; Coff, 1997). If these conditions hold, the firm's bundle of resources can assist the firm sustain above average returns. Empirical studies using the theory have strongly supported this view (Barney, 1991; Orlando, 2000; Coff, 1997).

Today, the resource based theory of a firm has been welcomed by researchers as a sound basis upon which to develop theory in the field of human resource management (Truss, 2007; Coff, 1997; Orlando, 2000; Schoemaker & Amit, 1993; Butler et al, 2001), particularly as a means of theorizing the interrelationship between (HRM) and firm performance (Truss, 2005; Wernerfelt, 2004). It has been welcomed by some as providing a theoretical foundation for a subject previously lacking in one (Kamoche, 1996; Orlando, 2000; Coff, 1997). The resource based theory emanates from economics and was then applied to the field of strategy before being extended to human resource management (Kamoche, 1996; Coff, 1997; Orlando, 2000). This theory was built on the dual assumptions of firm heterogeneity, and firm immobility (Truss, 2005; Wernerfelt, 2004; Kamoche, 1996; Coff, 1997). This was extended to explain the assumption that firms consist of a bundle of unique resources and that if these resources meet the criteria of value, rarity, inimitability and non-substitutability, then they can constitute a source of sustained competitive advantage (Kamoche, 1996; Coff, 1997; Orlando, 2000).

TABLE 2

Research Programs in Strategic Management Related to the RBV of the Firm

Research Topic	Research Program	Representative Authors
Key concepts	<ol style="list-style-type: none"> 1. Alternative frameworks 2. Agency theory 3. Network theory and Austrian economics 4. Theory of the firm 5. Innovations and advantage 6. Organizational learning 7. Contingency model 	Barney (1991) Sherer, Rogovsk, & Wright (1998) Zaheer & Zaheer (1997) Barney (1996); Conner (1991) Conner & Prahalad (1996); Foss (1996 a,b) Bates & Flynn (1995) Grant (1996) Garud & Nayyar (1994) Collis (1994)
Strategic Management Issues	Behaviour models and culture; culture/resource selection	Fiol (1991); Knez & Carmerer (1994)
Top management teams	Top management teams	Flood, Smith & Derfus (1996)
Management roles and strategy management	Managerial action and prescriptions	Marino (1996) Parkinson (1995)
Responsibility	Social and natural environmental issues	Hart (1995); Litz (1996); Russo & Fouts (1997)
Formulation	Competitive strategy and building competitiveness	Black & Boal (1994) Wernerfelt (1984)
Environmental analysis	Environment and resource relationships	Fahy (1995); Majoor & Van Witteloostuijn (1996); Miller & Shamsie (1984)
Implementation and location	Industry structure/knowledge	Lado & Wilson (1994)
Content	Human resource management as a resource	Boxall (1996); Flood, Smith & Derfus (1996); Lado & Wilson (1994); Wright & McMahan (1992).
Planning systems	Strategic assets and planning	Michalisk, Smith & Kline (1997); Powell (1992a)
Information control	Strategic information support systems	Mata, Furst, & Barney (1995)
Ownership and new	Alliance formation Resources and performance	Eisenhardt & Schoonhoven (1996) Robbins & Wiersema (1995)
Business	International strategic management	Collis (1991); Moon (1997); Taylor, Beechler & Napier (1996)
Global firms	Mergers, acquisition and diversification	Ingram & Thompson (1995) Markides & Williamson (1996)
	Underlying resources that lead to quality philosophy of science	Powell (1995) Godfrey & Hill (1995)

Source: Priem, R.L. and Butler, J.E (2001), *Is the resource-based "view" a useful perspective for strategic research? The academy of management review, vol. 26, No. 1 (Jan), pp. 22-40*

2.2 BUNDLES OF UNIQUE ORGANIZATIONAL RESOURCES IN RACIAL DIVERSITY

Dabu, (2008: 1-29) pointed out that most of the writers in the field of resource-based view of the firm have stated that, for a firm to gain competitive advantage over competitors it should possess bundles of unique resources with the characteristics of value, rarity, inimitability and non-substitutability (VRIN). However, as one may expect, the validity of the VRIN criteria has been questioned. For instance, Priem and Butler, (2000) pointed out that the source of resources' value is unclear in Barney's (1991) article and is seen as disconnected from the market process. Also, given equifinality, Wright and McMahan, (1992) questioned the relevance of the inimitability and non-substitutability criteria. Dabu, (2008) said that these critiques seem particularly suitable within SHRM. Even more, using the VRIN criteria as a post factum explanation of strategic competitive advantages is quite different from using them as instrumental, actionable standards to determine the potential of particular resources to generate such advantages (Dabu, 2008; Khatri, 2000; Truss, 2007).

Proponents of diversity therefore, have maintained that different opinions provided by culturally diverse groups make for better-quality decisions (Orlando, 2000; Cox, 1994). Minority views stimulate consideration of nonobvious alternatives in work settings and appear useful for making valuable judgments in novel situations. According to Orlando, (2000: 164) heterogeneity in decision-making and problem-solving styles produces better decisions through the operation of a wider range of perspectives and a more thorough critical analysis of issues. A few laboratory studies have provided support for the idea that racial diversity benefits decision making; this is usually termed the "value-in-diversity hypothesis," or the "information/decision-making notion" (Orlando, 2000; Dabu, 2008; Khatri, 2000; Truss, 2007; Barney, 1995). SHRM is a means of gaining competitive advantage through one of a company's most important assets: its people. Resources confer enduring competitive advantages on a firm to the extent that they remain scarce or hard to duplicate, have no direct substitutes, and enable companies to pursue opportunities (Orlando, 2000; Barney, 1991; Lado, Boyd, & Wright, 1992; Beardwell & Claydon, 2007; Barclay, 1982).

As other sources of competitive advantage, such as technological and physical resources, have become easier to emulate, the crucial differentiating factor between firms can be how HR works within an organization (Pfeffer, 1994; Orlando, 2000: 165). The concept of human capital is that people have skills, experience, and knowledge that provide economic value to firms. Barney and Wright (1998) and Orlando, (2000) noted that in order for human capital to contribute to sustainable competitive advantage, it must create value, remain hard to imitate, and appear rare. Cultural diversity in human capital serves as a source of sustained competitive advantage because it creates value that is both difficult to imitate and rare (Barclay, 1982; Orlando, 2000; Morrison, 1992; Dabu, 2008; Beardwell & Claydon, 2007; Lopez, & Ordas, 2004).

Value: Barney, (1995) and Wright and McMahan, (1992) said that a resource should add value to the firm by enabling it to exploit opportunities or neutralize threats in the environment. Barney, (1995); Truss, (2005) and Dabu, (2008) also notes that sources of value change over time. **Rarity:** A resource should be unique or rare among current and potential competitors; resources common among large numbers of firms can be a source of competitive parity (Truss, 2008 and Khatri, 2000). Orlando, (2000:166-167), Barney and Wright, (1998) said that a strategic asset must be rare in order to offer sustained competitive advantage. **Inimitability:** If a resource itself, or its benefits, can be imitated across firms, then it can only be a source of competitive parity, not competitive advantage (Barney and Wright, 1998). Inimitability arises through several factors, or isolation mechanisms (Barney, 1991; Lado and Wilson, 1994; Truss, 2005; Wernerfelt, 1995). **Non-Substitutable:** It should not be possible for the same, or strategically equivalent, resources, to be deployed by other firms (Barney, 1991; Lado and Wilson, 1994; Truss, 2007; Dabu, 2007). According to the definition of resources, all four criteria must be met for a resource to be considered a source of sustained competitive advantage (Truss, 2005; Barney and Wright, 1990; Dabu, 2007; Schoemaker and Amit).

Table 3**Classification of Firm Resources by the various authors in RBV Theory**

AUTHOR	TANGIBLE ASSETS	INTANGIBLE ASSETS	CAPABILITIES
Wernerfelt, (1984)		Resource Commitment	Diversification
Wernerfelt, (1989)	Tangible Assets	Blueprints	Cultures
Hall, (1992)		Intangible Assets	Intangible Capabilities
Hall, (1993)		Assets	Competencies
Prahalad and Hamel. (1990)		Core Competencies	
Amit and Schoemaker, (1993)			Intermediate Goods
Lado and Wilson, (1994)		Core Competencies	Human Capital
Orlando, (2000)		Culture	Racial Diversity
Truss, (2008)		Human Capital	Skills
Dabu, (2008)		Entrepreneurial Skills	Theory of the firm and Strategy Theories at Organizational level
Conner and Prahalad, (1996)		Knowledge Vs Opportunism-transaction theory	Organizational mode and market contracting
Rouse and Deilenbach. (1999)		Culture	Resource capabilities
Priem and Butler, (2001)		“Black Box”	Product market
Coff, (1997)		Human Capital	Tacit Knowledge and Social Complexity
Mosakowiski, (1998)		Culture	Management Processes

Source: John and Alan. (1999) Strategic Marketing and the Resource-Based View of the Firm. Academy of Marketing Science pp. 9

2.3 UNIQUE ORGANIZATIONAL RESOURCES AND ECONOMIC RENT

However, economists commonly distinguish among three types of economic rent: Ricardian rents which are extraordinary profits earned from resources that are in fixed or limited supply; Pareto rents (Quasi rents) which refers to the difference between the payments to a resource in its best and second best use and Lastly, Monopoly rents which stem from collusion or government protection (Schoemaker & Amit, 1993:34; Coff, 1997). Scholes et al, (2002: 153), Waldman, (1990) and Mosakowski, (1998) indicated that there are four major resources available for an organization including: physical resources-machines, buildings or production capacity; financial resources- capital, cash, debtors and creditors, and suppliers of money (financiers); intellectual capital-knowledge that has been captured in patents, brands, business systems, customer databases and relationships with partners and human resources-knowledge, skills of people and adaptability of human resources. This study would dwell on the human resource aspect of the organization, which is seen by many writers as the most valuable asset of the firm that provides sustained competitive advantage, hence economic rent.

The resource-based view of the firm therefore, overcomes the bias in the mainstream strategic management literature by stressing the importance of firm specific resources that can provide competitive advantage to an organization on a sustainable basis. Resources are anything that could be thought of as strength or weakness of a given firm, which include tangible assets' (Wernerfelt, 1984; Khatri, 2000; Orlando, 2000; Kamoche, 1996; Schoemaker and Amit; Huselid, 1995) or skills, organizational routines and processes' (Barney, 1991; Khatri, 2000; Wagner III & Gooding, 1987; Zenger, 1992). In contrast to the traditional external perspective of developing strategy to match the environment (e.g. Porter, 1980, 1985; Khatri, 2000), the resource-based view is centred on the internal resources of the firm. The assumption is that the origin of competitive advantage lies in possessing, acquiring and utilizing internal resources in getting the firm ahead of its competitors (Khatri, 2000; Truss, 2005; Mahoney & Pandian, 1992; Dabu, 2007; Wernerfelt, 1995; Conner & Prahalad, 1996).

Khatri, (2000:327; Wright & McMahan, 1992) said that while the classical strategic management paradigm has an industry-environment focus, the resource-based view is firm-focused, with emphasis on links among strategy, internal resources of the firm and performance. The resource-based view provided the necessary impetus to research in the strategic human resource management field (SHRM) (Khatri, 2000; Lado & Wilson, 1994; Wright & McMahan, 1992; Pfeffer, 1994). Scholars in this area argue that the human resource satisfies four conditions necessary to achieve sustainable competitive advantage: human resource is valuable, rare, imperfectly imitable and has no substitutes. Competitors can easily duplicate competitive advantage obtained via better technology and products, they suggest, but it is hard to duplicate competitive advantage gained through better management of people (Barney, 1995; Wright and McMahan, 1992; Wright, et al., 1994; Priem and Butler, 2001; Lado and Wilson, 1994; Truss, 2005; Khatri, 2000). There have been a number of studies on various aspects of managing human resource strategically, especially studies on the link between human resource practices and organizational performance.

CHAPTER THREE

A REVIEW OF THE KEY VARIABLES

3.1 BUSINESS STRATEGY

Recent theoretical works on business strategy have indicated that firm competitive advantage could be generated from firm human resources (HR). According to the resource –based view (Wan-Jing & Chun Huang, 2005; Barney, 1986; Roger, et al.; Wernerfelt, 1984; Coff, 1997; Lado, 1994; MacDuffie, 1995; Amit, & Schoemaker, 1993), the firm could develop sustained competitive advantage through creating value in a manner that is rare and difficult for competitors to imitate. According to Wan-Jing & Chun Huang, (2005: 436) traditional sources of competitive advantage, such as natural resources, technology and economies of scale have become increasingly easy to imitate. The concept of HR as a strategic asset has implications for this issue. Wan-Jing & Chun Huang, (2005: 436); Amit and Schoemaker, (1993) and Hekimian, (1967:108-109) said that HR is an invisible asset that creates value when it is embedded in the operational system in a manner that enhances firm's ability to deal with a turbulent environment. SHRM has grown considerably in the last fifteen (15) years (Wan-Jing & Chun Huang, (2005: 436). Wan-Jing and Huang, (2005) and Schuler et al. (2001) described the evolution of SHRM from personnel management in terms of two –phased transformation, first from personnel management to traditional human resource management (THRM), and then from THRM to SHRM.

To improve firm performance and create firm competitive advantage, firm HR must focus on a new set of priorities. If this fundamental assumption is correct, then much of the variation in HR practices across organizations should be explained by the organizations' strategies, and organizations that have greater congruence between their HR practices and their strategies should enjoy superior performance. For example, Doty & Delery, (1996), Schuler & Jackson, (1988) and Arthur, (1995) demonstrated that organizations following different strategies utilize different HR practice.

Other researchers have demonstrated that HR practices can influence organizationally relevant outcomes such as productivity and profitability (Doty & Delery, 1996; Arthur, 1994; Gerhart & Milkovich, 1990; Huselid, 1993). Despite the growing body of empirical SHRM research, the field has been criticized for lacking a solid theoretical foundation (Becharach, 1989; Dyer, 1985; Doty & Delery, 1996). This criticism arises, in part, because three different modes of theorizing have been employed in the field, but the differences among the alternative perspectives have not been explicitly acknowledged.

3.2 FIRM PERFORMANCE

3.2.1 Turnover

Prior work has examined the determinants of both individual employees' departures and aggregate organizational turnover, although most of the prior work has focused on the former (O'Reilly et al, 1989). For example, Arnold and Feldman (1982), and Cotton and Tuttle, (1986) and concluded that perceptions of job security, the presence of a union, compensation level, job satisfaction, organizational tenure, demographic variables such as age, gender, education, and number of dependents, organizational commitment, whether a job meets an individual's expectations, and the expressed intention to search for another job were all predictive of employees' leaving, and Sheridan(1992) and Huselid, (1995) found that perceptions of organizational culture influenced turnover.

3.2.3 Productivity

Research on the impact of SHRM practices on organizational productivity is more extensive. Cutcher-Gershenfield, (1991) found that firms adopting "transformational" labour relations-those emphasizing cooperation and dispute resolution-had lower costs, less scrap, higher productivity, and a greater return to direct labour hours than did firms using "traditional" adversarial labour relations practices. Katz, Kochan and Weber, (1985) demonstrated that highly effective industrial relations and lower absenteeism, increased product quality and direct labour efficiency, and Katz, Kochan and Keefe, (1987) and Huselid, (1995) showed that a number of innovative work practices improved productivity.

Katz, Kochan and Gobeille, (1983); Schuster, (1983) and Huselid, (1995) found that quality of work life (QWL), quality circles, and labour management teams increased productivity.

3.2.4 Profitability

A number of authors have explored the link between individual HRM practices and corporate financial performance. For example, Casio, (1991), Flamholtz (1985) and Huselid, (1995) argued that the financial returns associated with investments in progressive HRM practices are generally substantial. Prior work on the measurement of corporate financial performance is extensive. Perhaps the primary distinction to be made among the many alternative measures is between measurements of accounting and economic profits (Huselid, 1995). Economic profits represent the net cash flows that accrue to shareholders; these are represented by capital (stock) market returns. Accounting profits can differ from economic profits as a result of timing issues, adjustments for depreciation, choice of accounting method, and measurement error.

3.2.5 Development

Human resource systems may facilitate the development and utilization of output-based organizational competencies through eliciting employee involvement and commitment to the firm, fostering idiosyncratic exchanges between the firm's internal and external stakeholders, and building a positive organizational reputation (Lado and Wilson, 1994; Huselid, 1995; Schuler & Jackson, 1987). Lado and Wilson, (1994) identified the salient characteristics of a commitment-based HR systems that distinguishes it from the control-based HR system associated with bureaucratic firms. Accordingly, an HR system characterized by, among other things, broad, flexible jobs, team-based production and incentive systems, multiple career ladders, and heightened investment in human capital through training and development of employees, may engender commitment of organizational members. A commitment-based HR system may engender idiosyncratic exchanges of particularistic and symbolic resources among organizational stakeholders (Lado & Wilson, 1994; Huselid, 1995; Schuler & Jackson, 1987).

3.3 ORGANIZATIONAL STRUCTURE

3.3.1 Definition of Organization Structure

The traditional view of organizational structure describes it as the way an organization is configured into workgroups and the reporting and authority relationships that connect individuals and groups together. Structure acts to create separate identities for different work groups and has a major bearing on the effectiveness with which individuals and groups are able to communicate with each other (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967; Reeves & Woodward, 1970; Woodward 1965; Perrow, 1965).

Senior management faces ever-present challenges to maintain a competitive organization. Managers are constantly having to review the markets in which their organization operates the product and services they offer and the behaviour of competitors. Attention to these problems and challenges calls for an external focus but, at the same time, senior management must keep a close watch on internal structuring to ensure that organizational objectives can be met (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967; Reeves & Woodward, 1970; Woodward 1965; Perrow, 1965). The internal issues can be summarized under the broad heading of organizational structure and can have a critical influence on the ability of an organization to sustain high levels of individual achievement and performance. The idea that an organization's structure and processes should fit or match its environment has been around for a long time - and there is evidence that firms with good structure/environmental fit perform better than those without good fit (Habib and Victor, 1991; Ghoshal and Nohria, 1993). This paragraph examines the idea of organization structure and elucidates the uniqueness of this particular management concern. The management of internal structure presents problems that are unique to the organization because they involve the problems of organizing a particular set of employees to 'manage-out' inefficiencies and conflicts so that the workforce can provide maximum value to the organization's customers. Organisational structure has a fundamental bearing on Organisational Behaviour (OB), and business environment (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967; Reeves & Woodward, 1970; Woodward 1965; Perrow, 1965; Habib and Victor, 1991; Ghoshal and Nohria, 1993).

3.3.2 Aspects of Organization Structure

Centralization

Centralization is the extent to which authority for decision making in the organization is centralized so that it rests with top management. In a heavily centralized organization a head office typically keeps tight control over all important decisions (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967). Divisional managers may well be consulted over decisions affecting them but the balance of decision-making autonomy lies with the centre. In a heavily decentralized organisation, top management give substantial decision-making autonomy to employees. Such autonomy, when given, commonly extends to ways of working and scope to innovate with products and services and to liaise with suppliers and customers. However, it is still unusual for much financial responsibility to be delegated to frontline employees (Habib and Victor, 1991; Ghoshal and Nohria, 1993; Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967).

Differentiation

Vertical differentiation is the extent to which an organisation structure comprises different levels of authority. Horizontal differentiation is the extent to which the organisation is divided into specialisms (Wilson and Rosenfeld, 1990). Thus an organisation with many reporting levels in its hierarchy and which is organized into many different product or service areas would be highly differentiated. An organisation with a small number of employees and which is engaged in a single product area might have three levels of vertical differentiation (directors, middle managers and supervisors) but little horizontal differentiation (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967).

Integration

Integration refers to the extent to which different levels in the hierarchy are co-ordinated (vertical integration) and the extent to which co-ordination occurs across functional areas (horizontal integration) (Wilson and Rosenfeld, 1990). The terms differentiation and integration were also used by Lawrence and Lorsch (1967), who employed a similar definition of integration but who saw differentiation as the extent to which individuals in

different departments vary in their orientations to the organization's goals and values (Robbins, 1993).

Specialization

Specialization is the extent to which there are different specialist roles in an organisation: the higher the number of specialist roles the higher the degree of specialization. Specialisation also refers to the extent to which employees engaged in similar or closely related tasks are grouped together.

Formalization

Normalization is the tendency of an organisation to create and impose written rules and procedures for working. Traditionally, this would have included job descriptions and staff manuals detailing the procedures for staff to follow in given situations, many of them trivial in the minds of employees (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967).

Span of control

Span of control refers to the number of employees that a manager has reporting to him or her. The number can range from one to 100. As the span of control increases so does the problem of control and co-ordination. The number of subordinates reporting directly to a manager is commonly around 10-12. Above this, some other level-of management is usually introduced.

3.3.3 Early thinkers on structure

Business history is a subject that extends back at least 250 years to the origins of the industrial revolution around 1740 in the United Kingdom. The industrial revolution and the subsequent economy it created were characterized by a move from domestic production of goods to a system of production in factories. Such a move required the organization of employees and the design of structures to co-ordinate materials, production and supply. An early writer on work processes and structures was the American, Frederick Taylor. He was intrigued by his belief that workers would tend towards loafing

or 'Soldiering' (Taylor, 1911:19) and, therefore, would not achieve the maximum output possible. He believed that the prosperity of the worker was tied to the prosperity of the firm and that workers should respond favourably to efforts to structure their work to achieve maximum output. We now know that, workers seek far more from work than to maximize their output and income, yet such theories of work did not emerge until long after Taylor's studies.

3.3.4 Types of organizational Structures

Multifunctional Structures

Large corporations appeared earlier in the USA than in Europe (Hannah, 1976: 2) and were common by the end of the nineteenth century. One of the reasons for their success is thought to be related to the structure they employed. This commonly involved centralised control and the existence of separate functional departments, for example, ' for purchasing, production, marketing (see Figure below). Another aspect of their structure was what we now call vertical integration, that is, the bringing together of operations such as buying materials, production and assembly, distribution and retailing under the control of one enterprise (Hannah, 1976:3). General Motors, still a large US car manufacturer, built itself on centralised control over a functionally divisionalized structure and had become a benchmark for other large corporations in the 1940s (Drucker, 1975). The multifunctional form separates and organizes according to the various inputs to a firm's business. It is viable where products share common production methods and technologies and it allows employees to become highly specialized in their work.

Multidivisional Structures

Although functional structures (centralised and integrated) are thought to have been influential in early twentieth century economic growth, their effectiveness was questioned in the 1970s (Chandler, 1976: 2). This is largely because such structures became costly and slow moving when faced with rising competition from new product markets and lower-cost producers. A more efficient structure, called the multidivisional form, began to replace the centralised form (see figure below). In this, divisions were

created to look after all aspects of the production of a particular product, that is, from purchasing materials through manufacturing and distribution.

Matrix Structures

So far we have seen how organisations can be arranged along functional lines, and so attempt to gain benefits of specialization, and along divisional lines, where a stronger focus on the product market is possible. A drawback of the divisional structure is the risk of duplication of effort. For example, if all divisions operate their own purchasing departments then there will be duplication of effort and possibly a lack of shared information about purchasing. Another variant open to managers is the matrix structure. These are not particularly common and their distinguishing feature is that an employee will have two and sometimes more lines of authority to report to. One of the lines of authority, usually the functional area, will be used to manage the formal side of the employment contract such as attendance, salary negotiations and performance review. The other line(s) of authority are used to involve employees in ongoing projects and initiatives to which they have to make commitments. When there is a real need for staff to spread their time across a range of diverse activities the matrix structure has something to offer.

3.4 HUMAN RESOURCE STRATEGY

Khatri, (2000: 340) said that the natural research progression is to examine the impact of many HR practices simultaneously so that their independent effects can be better understood. This study will look at the entire HR practices-the so called: the Best HR practices by Pfeffer, (1994). To date, SHRM has predominately been an applied field. The field's dominant focus has been to demonstrate the importance of effectively managing the human resources of organizations (Delery & Doty, 1996). Thus, a growing number of articles are appearing in the publications aimed at the practitioner community. Although this applied focus has helped to highlight the contributions of SHRM to organizations, it has not fostered sound theoretical development (Delery & Doty, 1996; Wernersfelt, 1984). What has emerged is a growing literature discussing the benefits of

SHRM without sufficient articulation of the specific theoretical underpinning of the field. This study would articulate the three major modes of theorizing in the HR strategy including the following: the universalistic, contingency, and configurational perspectives (Delery & Doty, 1996:805).

Some scholars have attempted to demonstrate how certain HR practices are consistent with different strategic positions, and how these practices relate to firm performance (Schuler & Jackson, 1987; Wan-Jing & Chun Huang, 2005; Delery & Doty, 1996: 807; Horngren, et al., 2003; Drury, 2000). Moreover, other scholars have examined the effects of person-environment fit (Werbel & Demarie, 2001), executive controls (Snell & Youndt, 1995) and local environment, union, resource dependency and integration, administrative heritage and competency (Beechler & Yang, 1994). In the strategic contingency for this study, I selected Kaplan & Norton, (1992) theoretical concept of the balanced scorecard because the concept has several advantages in strategic management and firm performance. First, it has been shown to be relatively powerful predictor of organizational effectiveness and firm performance (Kaplan & Norton, 1996; Delery & Doty, 1996; Huselid, (1995); Butler & Priem, 2001). Second, Kaplan & Norton, (1996) explicitly stated that the theoretical concept of the balanced scorecard has implications for an organizations business strategy. Thirdly, in the recent past, the theoretical concept has been introduced in the SHRM field as a strategic management tool towards effective management of human resources. Finally, existing studies present alternative interpretations of Kaplan and Norton's theoretical concept that would allow it to be interpreted both as a contingency theory (Lipe & Salterio, 2000; Dickson & Wisniewski, 2001).

Thus, Kaplan and Norton's theoretical aspect can be used with both the contingency perspective and the configurational perspective presented in this paper. Interpreting Kaplan and Norton's (1992) theoretical concept of the balanced scorecard as a contingency theory, requires a researcher to identify a single variable that differentiates the alternative strategies specified in the original theory (Delery & Doty, 1996; Horngren, et al., 2003; Drury, 2000). Most previous work by Kaplan and Norton, (1996)

emphasized on four major strategic aspects of firm performance including: financial perspective, internal business processes, learning growth perspective and customer perspective as the central contingency variables (Lipe & Salterio, 2000; Dickson & Wisniewski, 2001; Drury, 2000). Delery and Doty, (1996) said that firms that are highly innovative are considered prospectors, firms that are moderately innovative are considered analyzers, and firms that rarely innovate are considered defenders. The strategic positioning of all firms can be characterized by a single contingency variable: innovation (Delery & Doty, 1996; Drury, 2000; Lipe & Salterio, 2000; Dickson & Wisniewski, 2001).

CHAPTER FOUR

RELATIONSHIP BETWEEN VARIABLES

4.1 BUSINESS STRATEGY AND FIRM PERFORMANCE

Miles and Snow's typology (1978) of four strategic archtypes has been used very often in previous research (Khatri, 2000; Doty & Delery, 1996). Further, the same authors wrote an influential article (1984) specifically linking the strategy archtypes with HR practices (Khatri, 2000: 342). In this study, I have used their typology to examine the moderating influence of HR strategy (universalistic, contingency and configurational perspectives) on the link between the business strategy (defenders, prospectors, analyzers and reactors) and firm performance (individual and organizational performance) as indicated in the concept model.

4.1.1 Defenders

Defenders operate in a narrow domain and protect it aggressively. They achieve this with high degree of efficiency (Khatri, 2000; Doty & Delery, 1996; Hambrick, 1983; Namiki, 1989; Zahra & Pearce, 1990). A defender strategy calls for centralized decision making with an emphasis on formalization and standardization of jobs and tasks. According to Khatri, (2000); Miles and Snow, (1978) and Hambrick, (1983), defenders are usually found in matured industries (Khatri, 2000; Miles & Snow, 1984; Hiltrop, 1996; Zahra & Pearce, 1990). The basic strategy of defenders is to "build" human resources. This means that a defender company typically engages in little recruiting above entry level, but has extensive training and development programmes. Moreover, the tasks are standardized, narrow and routine to achieve efficiency. As a result, participation of employees in decision making is not encouraged. Defenders operate in a stable industry and protect the niche they occupy. Consequently, they do not need any elaborate HR planning exercises. Compensation is position or seniority-based and performance appraisal is process-oriented (Khatri, 2000; Miles & Snow, 1984; Arthur, 1992).

4.1.2 Prospectors

Prospectors are virtually the opposite of defenders. They continually search for new products/markets and create new goods and services. A prospector's domain is thus broad and unstable. It is a continuous state of development because with additions of new products or markets come retrenchments in some of the existing products or markets (Khatri, 2000; Miles & Snow, 1984; Hiltrop, 1996; Zahra & Pearce, 1990). A good degree of flexibility needs to be incorporated into the technological system to ensure a good fit with the changing domain. The technological system is not contingent only upon the organization's current product mix but also the future mix (Khatri, 2000: 343; Woodward, 1984). The solution appears to be the creation of multiple technologies with a low degree of standardization, routinization and mechanization (Khatri, 2000: 343; Woodward, 1984). Thus prospectors need a decentralized market-based design with low specialization and a lot of participation from the employees. A prospector strategy requires much support from the HR department needs to be proactive and involved in all major strategic decisions. According to Khatri, (2000: 342-345) prospectors typically seek to buy in talent-a strategy that should involve sophisticated recruitment/selection, including extensive psychological testing at all levels of the organization but limited training.

4.1.3 Analyzers

Analyzers are a hybrid of defenders and prospectors. It means that they operate in stable as well as changing markets. For their products in a stable market domain, they operate efficiently. They watch their competitors for new ideas in their turbulent market domain.

Analyzers are moderately decentralized (Khatri, 2000; Miles & Snow, 1984).

Consistent with hybrid nature of overall strategy of analyzers, their HR practices are likely to be hybrid of HR practices of defenders and prospectors. Khatri, (2000:344) said that there is one unique feature of analyzer strategy, that is, analyzers make much use of planners and analysts, and organizations pursuing analyzer strategy need to be large enough to be able to maintain the duality in their structure and their broad domain. An analyzer strategy may also require a lot of emphasis on HR management like a prospector strategy (Khatri, 2000; Miles & Snow, 1984).

4.1.4 Reactors

Reactors lack a consistent strategy. As a result, HR practices of reactor companies are likely to lack consistency too. I propose no hypotheses here, although all analyzers performed on other three strategic archetypes have also been performed on companies pursuing reactor strategies to discern any patterns in their HR practices (Khatri, 2000).

4.2 MODERATING EFFECTS OF ORGANIZATIONAL STRUCTURE AND HR STRATEGY

Cooper and Schindler, (2006: 40-41) and Sakaran, (2006: 91) defined a Moderating Variable (MV) as a second independent variable that is included because it is believed to have a significant contributory or contingent effect on the originally stated Independent Variable (IV)-Dependent Variable (DV) relationship. Sakaran, (2006) stated that the presence of a third variable (the moderating variable) modifies the original relationship between the independent and the dependent variables. An independent variable (IV) (predictable variable) is one that influences the dependent variable in either a positive or negative way. That is, when the independent variable is present, the dependent variable is also present, and with each unit of increase in the independent variable, there is an increase or decrease in dependent variable also. In other words, the variance in the dependent variable is accounted for by the independent variable (Sakaran, 2006:89). Cooper and Schindler, (2006: 40) and Mugenda and Mugenda, (2003) said that independent variable is usually manipulated by the researcher, and the manipulation causes an effect on the dependent variable.

Cooper and Schindler, (2006: 40) recognized that there are often several independent variables and that they are probably at least somewhat "correlated" and therefore not independent among themselves. Dependent variables (criterion variable): this variable is measured, predicted or otherwise monitored and is expected to be affected by manipulation of an independent variable. The dependent variable is the variable of primary interest to the researcher. The researcher's goal is to understand and describe the dependent variable, or to explain its variability, or predict it. In other words, it is the main variable that lends itself for investigation as a variable factor.

Through the analysis of the dependent variable (i.e., finding what influence it), it is possible to find answers or solutions to the problem. For this purpose, the researcher will be interested in quantifying and measuring the dependent variable, as well as the other variables that influence this variable (Cooper and Schindler, 2006; Mugenda and Mugenda, 2003; Sakaran, 2006).

The concept of "fit" is central in the field of strategic management (Wan-Jing & Chun Huang, 2005; Huselid, 1995). Researchers have focused on the fit between strategy and other constructs, including the strategy and required role behaviours of employees (Wan-Jing & Chun Huang, 2005; Huselid, 1995; Schuler, 1989), strategy and HRM practice, strategy and HRM philosophy, strategy and business life cycle (Schuler, 1989; Wan-Jing & Chun Huang, 2005), strategy and organizational culture (Wan-Jing & Chun Huang, 2005) and in this case strategy and firm performance. This concept also includes managerial characteristics and environmental factors. Considerable empirical support exists for the effect of strategic fit on organizational outcomes. In SHRM, internal fit and external fit are two main research streams (Wan-Jing & Chun Huang, 2005; Huselid, 1995). Scholars have long held that, in addition to internal organization characteristics, environmental characteristics also significantly influence firm performance (Wan-Jing & Chun Huang, 2005; Huselid, 1995), since the external environmental characteristics represented customer demand and the nature of market competition, which are important determinants of firm performance. Therefore, this paper focuses on the fitness of strategic human resource management practices on the relationship between the business strategy and firm performance.

4.3 THE RELATIONSHIP BETWEEN INDIVIDUAL OUTPUT AND ORGANIZATIONAL OUTPUT

4.3.1 Motivation

All organizations are concerned with what should be done to achieve sustained high levels of performance through people. This means giving close attention to how individuals can best be motivated through such means as incentives, rewards, leadership and importantly the work they do and the organization context within which they carry out that work (Graham and Bennett, 1998; Armstrong, 2006). The aim is to develop motivation processes and a work environment that will help to ensure that individuals deliver results in accordance with the expectations of management. Motivation theory examines the process of motivation. It explains why people at work behave in the way they do in terms of their efforts and the directions they are taking. It describes what organizations can do to encourage people to apply their efforts and abilities in ways that will further the achievement of the organization's goals as well as satisfying their own needs. It is also concerned with job satisfaction-the factors that create it and impact on performance.

4.3.2 Employee Job Satisfaction

Hoppock, (1935) and Chang and Lee, (2007) indicated that job satisfaction means the mental, physical and environmental satisfaction of employee and the extent of job satisfaction can be known by inquiring employees about the job satisfaction extents. The academic definitions of job satisfaction can be divided into three types. Namely: Integral definition: this definition emphasizes workers' job attitude towards environment with focal attention on mental change for individual job satisfaction of employee (Locke, 1976; Fogarty, 1994; Robbins, 1996; Chang and Lee, 2007). Differential definition: It emphasizes job satisfaction and the difference between the actually deserved reward and the expected and the expected reward from employees; the larger difference means the lower satisfaction (Smith et al., 1969; Hodson, 1991; Chang and Lee, 2007). Reference structure theory:

It emphasizes the fact that the objective characteristics of organizations or jobs are the important factors to influence employees' working attitude and behaviours but the subjective sensibility and explanation of working employees about these objective characteristics; the said sensibility and stability and explanation are also affected by self reference structures of individual employee (Morse, 1953; Homans, 1961; Chang and Lee, 2007). Within this study, for the dimension of job satisfaction, I would adopt the frequently applied Minnesota Satisfaction Questionnaire (MSQ) together with the Brayfield and Rothe Index of Job Satisfaction (BRIJS) in order to divide the job satisfaction of employee into the external satisfaction and internal satisfaction for the subsequent researching investigation (Locke, 1976; Fogarty, 1994; Robbins, 1996; Chang and Lee, 2007).

4.3.3 Job Satisfaction and Firm Performance

It is a commonly held and seemingly not unreasonable belief that an increase in job satisfaction will result in improved performance (Purcell et al., 2003; Armstrong, 2006; Guion, 1958; Crocket, 1955; Graham and Bennett, 1998). But research has not established any strongly positive connection between satisfaction and performance. A review of the extensive literature on this subject by Brayfield and Crockett, (1955); Graham and Bennett, (1998: 74) and Armstrong, (2006: 264) concluded that there was little evidence of any simple or appreciable relationship between employee attitudes and their performance. An updated review of their analysis by Vroom, (1964) and Graham and Bennett, (1998: 74) showed that measures of job satisfaction and employee attitudes, was correlated with one or more criteria of firm performance.

4.4 BUSINESS STRATEGY AND STRUCTURE

Miller, (1987: 7) suggested that organizational structures and strategy-making processes are highly interdependent and must be complementary in many ways to ensure good performance under challenging conditions. An empirical analysis of 97 small and medium-sized firms by Miller, (1987: 7) showed that structural formalization and integrated were related to the levels of interaction and pro-activeness among decision

makers and to four aspects of rationality in decision making: analysis of decisions, planning, systematic scanning of the environments, and explicitness of strategies.

According to Miller, (1987) centralization of authority was related to planning, risk taking, and consensus-building. He said that structural complexity had few associations with strategy making. Relationships between strategy making and structure were usually strongest among successful and innovative firms and seemed to contribute the most to performance in sizeable and innovative firms (Chandler, 1962).

A central problem in relating structure to strategy making is selection of variables (Miller, 1987; Chandler, 1962; Woodward 1965; Perrow, 1965). There has been much empirical research on structure. In his review of this literature, Miller, (1987) catalogued individual variables according to their frequency of use in key journals and textbooks. His list includes all the structural dimensions of an organization structure as discussed in this section of the paper. A traditional view of organization structure is that it describes the way an organization is configured into workgroups and the reporting and authority relationships that connect individuals and groups together (Robbins, 1993; Ouchi, 1977). Structure acts to create separate identities for different work groups and has a major bearing on the effectiveness with which individuals and groups are able to communicate with each other. The structural dimensions of structure as illustrated by Chandler, (1962) include: centralization, differentiation, integration, formalization, and complexity.

Centralization is the extent to which authority for decision making in the organization is centralized so that it rests with top management (Chandler, 1962; Woodward 1965; Perrow, 1965; Reeves & Woodward, 1970; Pugh, et al., 1968, 1969a & 1969b). In a heavily centralized organization a head office typically keeps tight control over all important decisions. Divisional managers may well be consulted over decisions affecting them but the balance of decision-making autonomy lies with the centre (Reeves & Woodward, 1970; Pugh, et al., 1968, 1969a & 1969b). Reeves & Woodward, (1970); Wilson and Rosenfeld, (1990) and Lawrence and Lorsch (1967), said that in a heavily decentralized organization, top management give substantial decision-making autonomy

to employees. Such autonomy, when given, commonly extends to ways of working and scope to innovate with products and services and to liaise with suppliers and customers. However, it is still unusual for much financial responsibility to be delegated to frontline employees (Woodward 1965; Perrow, 1965; Reeves & Woodward, 1970; Pugh, et al., 1968, 1969a & 1969b; Miller, 1987). Differentiation: Vertical differentiation is the extent to which an organization structure comprises different levels of authority. Horizontal differentiation is the extent to which the organization is divided into specialisms (Wilson and Rosenfeld, 1990; Lawrence and Lorsch 1967; Reeves & Woodward, 1970; Woodward 1965; Perrow, 1965). Thus an organization with many reporting levels in its hierarchy and which is organized into many different product or service areas would be highly differentiated. An organization with a small number of employees and which is engaged in a single product area might have three levels of vertical differentiation (directors, middle managers and supervisors) but little horizontal differentiation (Reeves & Woodward, 1970; Pugh, et al., 1968, 1969a & 1969b).

Reeves & Woodward, (1970); Wilson and Rosenfeld, (1990) and Lawrence and Lorsch (1967) said that, Integration refers to the extent to which different levels in the hierarchy are co-ordinated (vertical integration) and the extent to which co-ordination occurs across functional areas (horizontal integration) (Wilson and Rosenfeld, 1990). The terms differentiation and integration were also used by Lawrence and Lorsch (1967), who employed a similar definition of integration but who saw differentiation as the extent to which individuals in different departments vary in their orientations to the organization's goals and values (Robbins, 1993; Ouchi, 1977). Specialization is the extent to which there are different specialist roles in an organization: the higher the number of specialist roles the higher the degree of specialization. Specialization also refers to the extent to which employees engaged in similar or closely related tasks are grouped together. One interesting application of structural dimensions of complexity, formalization and centralization involves a comparison of mechanistic, organic and bureaucratic forms of organization.

Mechanistic forms of organization are characterized by high levels of complexity, formalization, and centralization (Hatch, 1997; Mondy, et al, 1990; Beardwell & Claydon, 2007; Thompson, 1967). In mechanistic organizations, labour is divided and subdivided into many highly specialized tasks (high complexity); workers are granted limited discretion in performing their tasks and rules and procedures are carefully defined (high formalization); and there is limited participation in decision making which tends to be conducted at the highest level of management (high centralization). Organic forms are characterized as the opposite of mechanistic forms. Mechanistic organizations are complex, formal and centralized, while organic organizations are relatively simple, informal, and decentralized (Hatch, 1997; Mondy, et al, 1990; Beardwell & Claydon, 2007; Thompson, 1967).

Compared with mechanistic organizations, employees in organic organizations, such as design firms or research labs, tend to be more generalist in their orientation (reflecting lower structural complexity); are granted greater discretion in performing their tasks (lower formalization); and decision making is pushed down to lower levels of the hierarchy (decentralization). Marx Weber advanced the concept of bureaucracy and provided us with an elaborate definition (Weber, 1947; Thompson, 1967). The central characteristics of bureaucracies include: a fixed division of labour, a clearly defined hierarchy of offices, each with its own sphere of competence, candidates for offices are selected on the basis of practical qualifications and are appointed rather than elected, officials are remunerated by a fixed salaries paid in monetary terms, the office is the primary occupation of the office holder and constitutes a career among others (Hatch, 1997; Mondy, et al, 1990; Beardwell & Claydon, 2007; Weber, 1947). Despite the fact that bureaucratic structure is an ideal structure for most organizations, there are several situations in which bureaucracy is decadently inappropriate. Small organizations do not need bureaucracy because their size makes direct supervision and centralized decision making easy and natural (Hatch, 1997; Mondy, et al, 1990).

4.5 ORGANIZATIONAL STRUCTURE AND FIRM PERFORMANCE

The quality of rationality and interaction in strategy making can benefit from formalized, decentralized, and integrated structures. Managers can analyze, plan and scan most effectively in structures that provide informative controls, recruit and empower expert staff, and create forums such as committees and task forces to coordinate their efforts. Of course, structural devices can never guarantee critical, multifaceted, and informed decision making, but they facilitate it and thus, on balance, enhance performance (Miller, 1987). Conversely, interactive and intendedly rational decision making can encourage well-integrated and highly participative structures. For example, interactive decision making can sometimes combat organizational conflict and fragmentation. Contacts among managers may prompt establishment of the structural integration devices needed to ensure adequate coordination.

If firms rarely innovate, bureaucratic devices like formal rules, specialization, cost control and coordinative committees alone may ensure adequate performance (Burns & Stalker, 1961; Miller, 1987). Interactive analytical decision making might be superfluous. But in firms that must often perform complex innovations, structure alone is sufficient; interactive and rational decision making must complement it to facilitate both identification of emerging market threats and opportunities and collaboration among diverse specialists, who must simultaneously consider the repercussions of innovation for making, research and development and production (Lawrence & Lorsch, 1967; Miller, 1987; Burns & Stalker). Firm size is another contingency expected to increase the importance of structure's complementary with rationality and interaction. In small, simple firms, Chief Executive Officers can manage most things alone. These firms can pursue sophisticated structures and interactive, analytical decision making –both possibly superfluous- sporadically and inconsistently without much consequence (Lawrence & Lorsch, 1967; Miller, 1987; Burns & Stalker; Mintzberg, 1979). Large firms, however, have many managers, departments, and contingencies and can only implement a rational, interactive mode of strategy making within structures having enough controls, staff experts, liaison devices to support it.

This mode is also more necessary to cope with the administrative complexities and environmental contingencies that face large firms (Lawrence & Lorsch, 1967; Miller, 1987; Burns & Stalker).

To recapitulate, the more formalized and decentralized a structure, the more prevalent a rational, interactive, unassertive mode of strategy making. The more common the use of integrative liaison devices, the more rational, interactive and assertive the mode of strategy making (Lawrence & Lorsch, 1967; Miller, 1987; Burns & Stalker). The specified relationship of rationality and interaction with structure will be quite functional, and thus more prevalent among high performers. This may be especially true in organizations facing highly complex uncertain conditions – specifically, large firms or those performing much complex product innovation (Lawrence & Lorsch, 1967; Miller, 1987; Burns & Stalker).

4.6 BUSINESS STRATEGY AND HR STRATEGY

The link between strategy and HR strategy can be further divided into two sub-streams: macro and micro-Level perspectives (Khatri, 2000: 336-339). Khatri, (2000: 336-339) pointed out that the macro sub-stream focuses broadly on the status and influence of HR function in the organization. The focus of the macro-stream is not on individual HR practices, but on the link between the HR function and the business strategy (Khatri, 2000; Schuler, et al 1993; Huselid et al, 1997; Taylor et al, 1996; Becker & Gerhart, 1996; Lengenick-Hall & Lengenick-Hall, 1988). Several scholars have put forward frameworks linking business strategy with HR strategy in this area. Five frameworks have been proposed as follows: Golden and Ramanujam (1985), Lengenck-Hall and Lengenick-Hall (1988); Schuler, (1992); Wright and McMahan, (1992) and Truss and Gratton, (1994) –which have received much attention today and are discussed next Khatri, (2000: 336-339).

4.6.1 Macro-Level Perspective

Golden and Ramanujam, (1985)

According to Khatri, (2000: 338) the researchers proposed four types of linkages between HRM and the strategic planning process: administrative, one way, two-way, and integrative. In firms with an administrative linkage between HR and strategic planning, the HRM department plays a traditional personnel role. It provides day-to-day operational support and is primarily involved in handling the paperwork. Top managers and other functional managers generally view the HR function as relatively unimportant. The firms with one-way linkage between HR and strategic planning have a sequential relationship between strategic planning and HR function. The HR function typically designs programmes and systems to support the firm's strategic objectives. The HR function merely reacts to strategic initiatives (Wright and McMahan, (1992) and Truss and Gratton, (1994). The two-way linkage is characterized by a reciprocal and interdependent relationship between strategic planning and HR function. Top management recognizes that business plans affect and are affected by HR activities. The HR function is viewed as credible and important. Firms having integrative linkage between strategic planning and the HR function show a frequent and dynamic interaction, both formal and informal. The senior HR executive is viewed as a true strategic business partner with other senior executives (Khatri, 2000; Schuler, et al 1993; Huselid et al, 1997).

Lengnick-Hall and Lengnick-Hall (1988)

According to Khatri, (2000:338), Lengnick-Hall and Lengnick-Hall, (1988) proposed a reciprocal linkage between competitive strategy and human resource strategy. If competitive strategy dictates the demand for skills/employees, human resource strategy determines organizational readiness. Khatri, (2000) went on to say that unlike most of the literature which explicitly or implicitly assumes unidirectional relationship flowing from strategy to HR practices, the authors emphasize that human resource strategy both affects and is affected by organizational strategy.

Schuler, (1992)

Khatri, (2000) said that Schuler, (1992) proposed the 5-P model linking strategic business needs with strategic human resource management activities. The five 'P's' stand for human resource philosophy, human resource policies, human resource programmes, human resource practices and human resource processes. The author noted that strategic human resource management consists of all activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of the business. Further, successful efforts at strategic HR-management begin with the identification of strategic business needs. If these needs are important to the success of the business, and if SHRM can be instrumental in meeting these needs, then these needs should be systematically analyzed for their impact on human resources management activities including HR philosophy, policies, programmes, practice and processes (Khatri, 2000:338)

Wright and McMahan (1992)

Wright and McMahan, (1992) identified six theoretical models (behavioural perspective, cybernetic models, agency/transaction cost theory, resource-based view of the firm, power/resource dependence models and institutional theory) that are useful for understanding both strategic and non-strategic determinants of HR practices. They argue that the first four theories are applicable to strategic HR decision making. These attempt to view HR activities as being determined by proactive, strategically intended decisions. The latter two focus on the institutional and political determinants of various HR practices, and explain the non-strategic and dysfunctional determinants of HR practices. The authors according to Khatri, (2000) suggested that both types of theories are necessary for understanding the role of HR practices in strategic management.

Truss and Gratton, (1994)

Reviewed the major models of SHRM and identified five key aspects of the SHRM process that should be included in any model of SHRM (Khatri, 2000: 338). These are: external environment, overall strategy of the organization, the internal organization (structural, cultural, political, and psychological factors), human resource strategy and

individual HR practices and outcomes (motivation, satisfaction, performance and commitment of employees). One unique feature of the model is that it explicitly recognizes the important distinction between intended HR strategy and realized HR practices which has been ignored in most models on SHRM (Khatri, 2000; Schuler, et al. 1993; Huselid et al. 1997; Taylor et al. 1996; Becker & Gerhart, 1996; Lengnick-Hall & Lengnick-Hall, 1988).

4.6.2 Micro-Level Perspective

Khatri, (2000: 339) said that while the above perspectives explained macro-level relationships between strategy and HRM, another sub-stream of research has chosen to examine these relationships at micro-level and some of the notable writers in this area includes: Miles and Snow, (1984); Schuler and Jackson, (1987).

Miles and Snow, (1984)

The authors of this micro-level perspective argued that the human resources management practices must be tailored to the demands of business strategy (Khatri, 2000). They noted that successful firms display a consistent strategy supported by complementary organization structures and management process. According to Khatri, (2000: 338-9) these authors suggested that strategies pursued by companies can be classified broadly into four types: defenders, prospectors, analyzers and reactors. While defenders, prospectors and analyzers pursue consistent strategies, reactors lack any consistency in their strategies. Defenders are characterized as building human resources, prospectors as acquiring resources. Khatri, (2000: 339) said that when viewed from this theoretical perspective, firms pursuing a defender strategy would emphasize training programmes and internal promotion (building human resources), while firms with a prospector strategy would spend more efforts on recruitment and selection (acquiring human resources) and performance-based compensation. Analyzers on the other hand would focus their attention on HR planning.

Schuler and Jackson (1987)

In another influential work in the micro sub-stream, Schuler and Jackson (1987) provided a detailed treatment of the three competitive strategies (innovation, quality enhancement and cost-reduction) and the required role behaviours. They argued that it is more useful to think about what is needed from an employee who works with other employees in a social environment and these needed employee behaviours are actually best thought of as needed role behaviours (Khatri, 2000; Miles & Snow, 1984; Schuler & Jackson, 1987; Truss & Gratton, 1994; Mosakowski, 1998). Khatri, (2000; 339) said that based on the different role behaviour requirements in different competitive strategies, they recommended a set of HR practices for each strategy. According to Khatri, (2000) research on the relationship between overall strategy and HR practices has been prominently theoretical in nature so far. Thus empirical studies are very much needed to test the validity of the above theoretical frameworks or in fact may allow us to develop new and more valid frameworks (Khatri, 2000; Truss, 2005; Mahoney & Pandian, 1992; Dabu, 2007; .Wernerfelt, 1995; Conner & Prahalad, 1996; Khatri, 2000; Wright & McMahan, 1992).

4.7 HR STRATEGY AND FIRM PERFORMANCE

In contrast to the dearth of empirical work on the strategy-HR practices relationship between HR practices and organizational performance has been the subject of significant empirical examination (Khatri, 2000; Arthur, 1994; Huselid, 1995; Huselid and Becker, 1996; Gerhart and Milkovich, 1990; Pfeffer, 1994). Previous research has used one of the following three ways to examine the effectiveness of HR practices on firm performance: universalistic, contingency or configuration (Delery & Doty, 1996; Khatri, 2000; Story, 1992; Orlando, 2000; Wan-Jing & Chun Huang, 2005). Researchers in the universalistic perspective are micro-analytical in nature and posit that some HR practices are always better than others and that all organizations should adopt these practices (Khatri, 2000; Delery & Doty, 1996; Pfeffer, 1998). Contingency theorists argue that, in order to be effective, an organization's HR practices must be consistent with other aspects of the organization (Khatri, 2000; Delery & Doty, 1996; Wan-Jing & Chun Huang, 2005). A common contingency factor identified in this line of research is business strategy.

The configurational theories are concerned with how the pattern of multiple independent variables is related to a dependent variable rather than with how individual independent variables are related to the dependent variable. Khatri, (2000: 340) said the configuration theories are concerned with how the pattern of multiple independent variables is related to a dependent variable rather than with how individual independent variables are related to the dependent variable. According to the configurational perspective, in order to be effective, an organization must develop an HR system that achieves both horizontal and vertical fit. Horizontal fit refers to the internal consistency of the organization's HR practices, and vertical fit refers to the congruence of the HR system with other organizational characteristics, such as firm strategy (Khatri, 2000-340; Delery & Doty, 1996; Wan-Jing & Chun Huang, 2005).

4.7.1 Universalistic Perspective

Universalistic arguments are the simplest form of theoretical statements in the SHRM literature because they imply that the relationship between a given independent variable and a dependent variable is universal across the population of organizations (Delery & Doty, 1996). Developing universalistic predictions requires two steps: First, important strategic HR practices must be identified. Second, arguments that relate the individual practices to organizational performance must be presented. Strategic HR practices are those that are theoretically or empirically related to overall organization performance. Although not all HR practices are strategic, there is growing consensus about which practices can be considered strategic (Khatri, 2000; Delery & Doty, 1996; Wan-Jing & Chun Huang, 2005; Lado & Wilson, 1994). Drawing on the theoretical works of Delery & Doty, (1996); Huselid, (1995); Butler & Priem, (2001); Orlando, (2000); Wernerfelt, (1984); Wright & Snell (1998) among others, I identified several practices including the sixteen HR practices by Pfeffer (1994), that are consistently considered strategic HR practices. However, in this study, these practices have been compressed to provide four key High Performance Work Practices (HPWP), including: comprehensive man-power planning, employee recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training.

4.7.2 Contingency Perspective

Delery & Doty, (1996) said that the contingency arguments are more complex than universalistic arguments because contingency arguments imply interactions rather than the simple linear relationships incorporated in universalistic theories. In other words, contingency theories posit that the relationship between the relevant independent variable and dependent variable will be different for different levels of the critical contingency factor in the SHRM literature (Delery & Doty, 1996: 807). Thus a contingency perspective requires a researcher to select a theory of firm strategy and then specify how the individual HR practices will interact with firm strategy to result in organizational performance (Delery & Doty, 1996). In contrast to with universalistic thinking, contingency scholars argued that HR strategy would be more effective only when appropriately integrated with a specific organizational and environmental context.

4.7.3 Configuration Perspective

Delery and Doty, (1996: 808) pointed out that configurational arguments are more complex than those of either of the previous two theoretical perspectives of universalistic and contingency for several reasons. First, configurational theories draw on the holistic principle of inquiry (Doty, 1993) to identify configurations, or unique patterns of factors, that are posited to maximally effective. These configurations represent nonlinear synergistic effects and higher-order interactions that cannot be represented with traditional bivariate contingency theories (Delery & Doty, 1996). Second, configurational theories incorporate the assumption of equality by positing that multiple unique configurations of the relevant factors can result in maximal performance (Delery & Doty, 1996; Khatri, 2000). Third, these configurations are assumed to be ideal types that are theoretical constructs rather than empirically observable phenomena (Delery & Doty, 1996; Doty & Glick, 1994; Khatri, 2000). As a consequence of these differences, configurational theorists working in SHRM must theoretically derive internally consistent configurations of HR practices, or employment systems that maximize horizontal fit, and then link these employment systems to alternative strategic configurations to maximize vertical fit (Delery & Doty, 1996; Khatri, 2000; Wright & Snell, 1998).

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 MODES OF THEORIZING IN SHRM

Strategic human resource management (SHRM) is a means of gaining competitive advantage through one of a company's most important assets: its people. Human resource (strategic asset) confer enduring competitive advantages on a firm to the extent that they remain scarce or hard to duplicate, have no direct substitutes, and enable companies to pursue opportunities (Barney, 1991; Orlando, 2000; Lado, Boyd & Wright, 1992; Schoemaker & Amit, 1993). Butler et al (2001), underpins the characteristics of RBV by stating that: the proponents of the RBV asserts that if a firm attribute is rare and valuable, then that attribute is a resource that can give the firm competitive advantage. And if a resource that accords a firm competitive advantage is hard to imitate and is not substitutable, then that resource can provide the firm with sustainable competitive advantage (Butler et al, 2001; Doty & Delery, 1996; Wernerfelt, 1984; Shoemaker et al, 1993; Tsui et al, 1997; Mosakowski, 1998). As other sources of competitive advantage, such as technological and physical resources, have become easier to emulate, the crucial differentiating factor between firms can be how human resources work within an organization (Pfeffer, 1994; Orlando, 2000; Wernerfelt, 1984). The concept of human capital is that people have skills, experience and knowledge that provide economic value to firms (Schoemaker & Amit, 1993; Butler et al, 2001; Wilson et al, 1994; Wernerfelt, 1984).

5.2 CONCEPTUAL FRAMEWORK

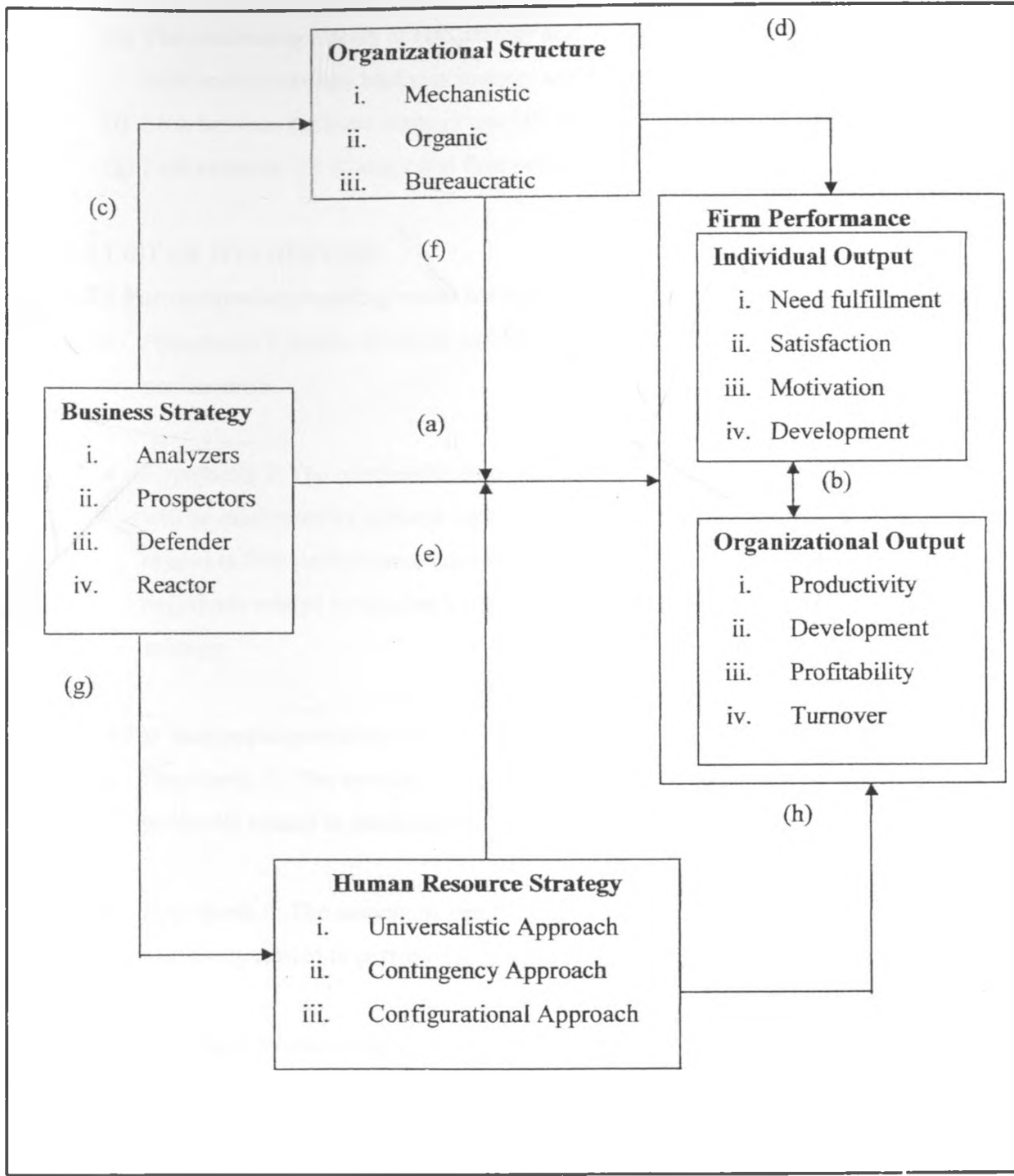
According to Miles and Snow's typology, (1978), an organization's business strategy (i.e. analyzers, prospectors, defenders and reactor) has direct influence on firm performance (i.e. individual output-need fulfillment, satisfaction, motivation and development; organizational output-productivity, development, profitability and turnover). The influence according to Khatri, (2000) and Delery and Doty, (1996) could either be positive or negative depending on the organization's choice of strategy.

The existing relationship between business strategy and firm performance is expected to be moderated by the organization's structure (i.e. mechanistic, organic and bureaucratic structures) and the human resource strategy (i.e. universalistic, contingency and configurational approaches). The conceptual framework (figure 1) therefore, has four key variables. There are three independent variables (i.e. business strategy, organizational structure and human resource strategy) and one dependent variable (firm performance). Firm performance has two more critical indicators, namely: individual and organizational output. The two indicators are expected to change given the business strategy, hence giving a reflection of the strategy used by the firm in production.

The entire framework, portray some linkage between these variables as follows: (i) there exists a direct linkage between the business strategy and firm performance, however, this linkage is expected to be moderated by two independent variables namely: organizational structure and the human resource strategy. (ii) The linkage between the business strategy and organizational structure and that of the organizational structure and firm performance. This relationship shows that, business strategy has some effects on the organizational structure. hence influencing firm performance. (iii) The linkage between business strategy and human resource strategy and that of human resource strategy and firm performance. This relationship shows that the business strategy would influence the human resource strategy, hence firm performance. The model, try to confirm the fact that any slight changes in the business strategy may have either positive or negative effect on firm performance, and that the effect would most likely be reinforced by the organizational structure and human resource strategy that are in place.

NB: That firm performance is a function of: business strategy, organizational structure and human resource strategy

Figure 1: The Model of Business Strategy and Firm Performance. Source: Busienci, J.R. (2008)



KEY

- (a) Link between business strategy and firm performance
- (b) The relationship between business strategy and organizational structure
- (c) The relationship between organizational structure and firm performance
- (d) The relationship between individual and organizational output
- (e) The moderating effects of HR strategy and organizational structure on the relationship between business strategy and firm performance
- (f) Link between business strategy and HR strategy
- (g) Link between HR strategy and firm performance

5.3 LIST OF HYPOTHESES

5.3.1 For companies pursuing racial diversity:

- Hypothesis 1: Racial diversity will be positively associated with firm performance.
- Hypothesis 2: The relationship between business strategy and firm performance will be moderated by cultural diversity. Higher racial diversity will be positively related to firm performance when the firm pursues a defender strategy and negatively related to firm performance when the firm pursues an analyzer's strategy.

5.3.2 For companies pursuing a defender strategy:

- Hypothesis 3: The amount of comprehensive man-power planning will be positively related to performance.
- Hypothesis 4: The amount of employee involvement and training will be negatively related to performance

5.3.3 For companies pursuing a prospector strategy:

- Hypothesis 5: The greater emphasis on employee participation and empowerment will be positively related to performance.

- Hypothesis 6: The greater participation and empowerment of employees in team-based job design will be negatively related to performance.

5.3.4 For companies pursuing analyzer strategy:

- Hypothesis 7: The amount of man-power planning will be positively related to performance
- Hypothesis 8: The amount of training will be positively related to performance
- Hypothesis 9: The greater employee participation/involvement in team-based job-design will be positively related to performance.

5.3.5 For companies pursuing HR Strategy

- Hypothesis 10: Firms that adopt universalistic practices significantly outperform those that adopt either contingency or configurational practices.
- Hypothesis 11: Firms that adopt the balance scorecard approach for SHRM practices significantly outperform those that adopt THRM practices.
- Hypothesis 12: Turnover will be higher in control human resource systems than in commitment human resource systems

5.3.6 For companies pursuing organizational structure

- Hypothesis 13: Firms that adopt mechanistic practices significantly outperform those that adopt either organic or bureaucratic practices.
- Hypothesis 14: Firms that emphasize on organizational structure significantly outperform those that emphasize on SHRM practices.
- Hypothesis 15: Turnover will be higher in control human resource systems than in commitment human resource systems

5.4 CONCLUSION

In this paper I have taken some tentative steps towards a more formal evaluation of the status and potential of the popular RBV of strategic management. The RBV does not presently appear to meet the empirical content criterion required of theoretical systems (Bacharach, 1989; Priem & Buttler, 2001; Huselid, 1995). This does not mean, however, that conceptual work initiated from a resource perspective is not theory (Huselid, 1995; Wernerfelt, 1984). Bacharach, (1989), Priem & Buttler, (2001), Miller and Shamsie. (1996), Wernerfelt, (1984), Delery & Doty, (1996) and Khatri, (2000), for example, presented the three modes of theorizing (universalistic, contingency and configuration) that helps underpin the Theory of RBV in the context of firm resources. The Resource Based theorists have established that for a firm to gain competitive advantage, it must possess unique bundles of firm resources that have value, rare, inimitable and non-substitutable in nature. From Bacharach, (1989), Priem & Buttler, (2001), Huselid's. (1995) work, it does not mean that the RBV does not have potential to achieve theory status in the future. A concern, however, is that the elemental strategy concept of "value" remains outside the RBV. Yet, this value determination long has been acknowledged to be critical factor for organizational success (Priem & Butler, 2001: 36).

CHAPTER SIX

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