A STAKEHOLDER PERSPECTIVE ON HRM-PERFORMANCE LINKAGES

by Michel Hermans

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ABSTRACT

I apply a stakeholder perspective to SHRM and propose that the extent to which stakeholder interests are considered in the design and deployment of HRM processes is positively related to these practices' contribution to building required organizational capabilities. I distinguished between internal stakeholders and external stakeholders and found that stakeholder oriented HRM practices have an effect on organizational effectiveness through enhanced organizational capabilities. Data were obtained from 2,849 line managers and 201 senior HR executives from 201 business units, representing North America, Latin America, Europe, China and Australia.

BIOGRAPHICAL SKETCH

Michel Hermans is a MS/PhD student in Human Resource Studies at the School for Industrial and Labor Relations, at Cornell University. His research focuses on strategic human resource management, in particular the alignment of HRM practices with organizational and contextual characteristics, and the management of human resources in inter-organizational work arrangements.

Prior to enrolling at Cornell University, Michel was a lecturer in the Organizational Behavior and Human Resource Department at IAE Business School, in Argentina, where he taught in the MBA, EMBA, and Executive Education programs. He has collaborated with several companies across Latin America as an independent consultant, worked five years for the Telecom Italia Group as an internal consultant, and was an Associated Researcher at the United Nation's Economic Commission for Latin America and the Caribbean (UN-ECLAC).

A native from the Netherlands, Michel holds Bachelor and Master of Science degrees in Business Administration from the Rotterdam School of Management, Erasmus University Rotterdam. Michel is married and has a son.

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While this thesis has benefited from feedback and discussions with many people, any errors, misrepresentations or missing information are solely my responsibility. Likewise, opinions expressed in this thesis do not necessarily reflect the opinions of the people mentioned above, or of the ILR School at Cornell University.

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CHAPTER 1

INTRODUCTION

Since the inception of strategic human resource management (SHRM) as a field of study, researchers have pointed to the importance of understanding human resource management (HRM) practices in the context of organizational strategies and contextual characteristics (e.g. Dyer, 1984; Schuler & Jackson, 1987; Ulrich & Lake, 1990). However, theoretical propositions regarding external fit (e.g. Baird & Meshoulam, 1988) have typically received weak or unconvincing empirical support (Wright & Sherman, 1999; Gerhart, 2007a). Consequently, explanations for positive associations between the adoption of innovative or commitment-enhancing HRM practices and organizational performance, as reported in numerous studies (Combs, Liu, Hall & Ketchen, 2006; Wright, Gardner, Moynihan & Allen, 2005), generally refer to collective employee outcomes such as enhanced knowledge, skills and abilities, empowerment to act, motivation, and reduced cost of operation.

Several studies suggest that organizational strategies and contextual characteristics do affect HRM-performance linkages. For example, Datta, Guthrie and Wright (2005) found that industry characteristics such as capital intensity, industry growth, and industry differentiation, moderated the effects of high performance work systems on firm performance. Similarly, Gong, Law, Chang, and Xin (2009) attributed some of their findings to particularities of the Chinese context. For instance, they argued that the gradual loss of appeal of employment security in China explained the lack of support for the commonly found relationship between HRM practices that emphasize employment security and higher firm performance. These findings imply that the effect of HRM practices on organizational performance may vary according to the particularities of the context the organization operates in. As a result, to optimize the contribution of HRM practices to performance, contextual factors need to be considered when designing and implementing HRM practices.

Other studies focus on the role of HRM practices in building specific organizational capabilities based on particular workforce characteristics (e.g. Collins & Smith, 2006; Sun, Aryee & Law, 2007; Takeuchi, Lepak, Wang & Takeuchi, 2007). While often left implicit, the need to develop such organizational capabilities results from the strategic goals of the organization. For example, in a study of high-tech start-up firms Collins and Clark (2003) demonstrated that organizations that adopt HRM practices which enhance top management team social networking outperformed firms that did not. The authors argued that wider social networks allowed managers to improve their access to information, which represents a key organizational capability in this industry segment. Findings from these studies imply that the development of organizational capabilities centered on particular stakeholders, requires HRM practices that are aligned with the characteristics and possible needs of such actors.

Arguments regarding the relevance of contextual factors and stakeholder characteristics in understanding the relationship between HRM practices and firm performance (e.g. Ulrich, 1997; Ulrich & Brockbank, 2005) suggest that actors other than human resource professionals can contribute to the design and implementation of HRM practices. For example, an airline may invite members of its frequent flyer program to participate the selection process for new flight attendants. Shareholders may want to be involved in the definition of companies' reward structures. Employees can provide information that may increase the feasibility of goals included in an organization's performance management process, and line managers may contribute to improved designs of training interventions. In this study, we aim to develop an understanding of the relationship between the extent to which such stakeholders are considered in the design and deployment of HRM practices, and the effects of HRM practices on organizational performance. We draw on stakeholder theory to develop our hypotheses regarding consideration of stakeholder interests in HRM practices and organizational effectiveness. We will argue that the extent to which stakeholders are considered and involved in the design and deployment of HRM practices predicts the extent to which such practices enhance organizational capabilities. Finally, we predict that the extent to which HRM practices enhance organizational capabilities is significantly related to firm performance. We test the proposed relationships, drawing on a cross-industry sample of 2,849 line managers and 201 HR executives from 201 business units, representing 5 geographical areas.

CHAPTER 2

THEORETICAL BACKGROUND AND HYPOTHESES

2.1. A stakeholder approach to SHRM

Stakeholder theory (e.g. Donaldson & Preston, 1995; Freeman, 1984; Goodpaster, 1991) proposes that organizations interact with "groups and individuals who can affect or are affected by the achievement of the firm's objectives" (Freeman, 1984: 25). Of particular relevance are strategic or primary stakeholders, who can affect a firm's goal-setting based on their ability to provide or withhold resources needed by the firm (Goodpaster, 1991). Clarkson (1995) argued that primary stakeholders comprise investors, customers, suppliers, employees and communities. According to stakeholder theory, managers need to accommodate the interests of stakeholders, so that the organization may help each stakeholder achieve its goals while pursuing its own goals.

Stakeholder theory complements other theories of organization as it focuses on identifiable actors and their goals (Ulrich & Barney, 1984). In particular, the resource-based view (Barney, 1991) suggests that organizations that have access to valuable, rare, inimitable, and non-substitutable resources will outperform competitors. Stakeholder theory adds that the value of resources is determined in exchange relations with key organizational stakeholders. The identification of stakeholders allows for catering to specific stakeholder needs and for examining how the efficiency of exchanges can be enhanced. Moreover, to the extent that an organization's set of relationships with stakeholders can be used effectively to achieve organizational goals, it constitutes an intangible, and socially complex resource in itself (Hillman & Keim, 2001), which competitors may not be able to imitate.

In addition, sound and ongoing relationships between an organization and its stakeholders allow for the development of an institutional context that can facilitate learning and the creation and dissemination of valuable knowledge. The knowledge-based view suggests that organizations may obtain rents from coordination and integration of efforts of individuals who possess different types of knowledge (Grant, 1996). Since stakeholders inside (e.g. employees) and outside (e.g. investors) the organization may possess valuable knowledge, consideration of the interests of these stakeholders can improve relationships and enhance the organization's capabilities for creating and leveraging knowledge. Taken together, stakeholder theory suggests that taking into account and accommodating stakeholder interests will lead to superior achievement of firm performance objectives (Donaldson & Preston, 1995).

A stakeholder perspective to organizational goal-setting implies that firm performance needs to be interpreted in terms of the organization's effectiveness in satisfying different stakeholders' interests while pursuing its own strategic goals. As stakeholder interests and goals vary across organizations, organizational effectiveness can refer to different indicators of performance. For example, a chemicals company's long-term success may require investments in reduction of contamination in communities that surround its production facilities, while an investment bank may need to face high costs of compensation to attract and retain employees. As organizations need to respond to different stakeholder needs, the required human capital pool and collective employee behaviors and relationships that allow for performance, and thus required HRM practices, will vary across organizations. This implies that different configurations of HRM practices may be equally effective, given functional correspondence between the demands placed on the organization by its stakeholders and the organization's capacities to meet those demands. Several SHRM scholars have built on a notion of functional equivalence of HRM systems (e.g. Baron, Hannan & Burton, 1999; Delery & Doty, 1996; Kehoe & Collins, 2008), although empirical support has been mixed. For example, Delery and Doty (1996) posited that multiple configurations of HRM practices can result in maximal performance, but found that only one configuration of HRM practices resulted in maximum performance instead of multiple configurations. Moreover, they did not find the expected synergistic effects between individual HRM practices included in configurations. A shortcoming of the configurational approach is that only a few ideal types may be constructed and tested, which understates the real-world complexity of organizational systems (Colbert, 2004). Building on contributions regarding levels of abstraction in SHRM (e.g. Becker & Gerhart, 1996; Colbert, 2004; Wright, 1998), we posit that stakeholder interests inform the principles according to which an organization designs its HRM system. As a result, the specific HRM practices comprised in different organizations' HRM systems may vary, but may contribute equally to each organization's effectiveness to the extent that the HRM practices are aligned with stakeholder interests.

2.2. Consideration of internal stakeholder interests

A basic assumption of many SHRM researchers is that HRM practices can have a positive effect on firm performance, which increases to the extent that HRM practices are aligned with organizational goals as reflected in strategic management processes (Schuler & Jackson, 1987; Ulrich & Lake, 1990). In particular, researchers recognize the role of HRM practices in the development of capabilities that sustain an organization's core activities (e.g. Becker & Huselid, 2006; Lado & Wilson, 1994; Ulrich, 1997; Ulrich & Brockbank, 2005). Organizational capabilities enable a firm to pursue its goals based on firm-specific organizational processes through which resources are deployed (Amit & Schoemaker, 1993). Such organizational processes allow for the coordination and integration of activities inside the firm, organizational learning, and reconfiguration of the firm's asset structure (Teece, Pisano & Shue, 1997). Wright, Dunford and Snell (2001) argued that a focus on organizational capabilities requires consideration of the people who perform the organizational processes that underlie such capabilities, the skills people individually and collectively possess, and the behaviors people engage in to implement processes. HRM practices, then, allow for the development and maintenance of organizational capabilities, as they shape and enhance the human capital pool and the employee relationships and behaviors on which organizational capabilities are based. Empirical SHRM studies support these propositions, as effects of HRM practices on collective employee knowledge, skills and abilities, empowerment to act, and motivation have been found to be positively associated with indicators of firm performance (Combs *et al.*, 2006). While the effects of human capital pool characteristics and employee relationships and behaviors on firm performance imply analysis at the organizational level, researchers increasingly focus on the implications of differences across employee groups for HRM practices (e.g. Lepak & Snell, 1999; Kang, Morris & Snell, 2007; Tsui, Pearce, Porter & Tripoli, 1997). To the extent that skills and behaviors of different groups of employees within the organization vary in importance to a firm's competitiveness, the HRM practices used to manage such groups will vary as well (Jackson, Schuler & Rivero, 1989). For example, Lepak and Snell (2002) identified four different employment modes (i.e. knowledge-based employment, job-based employment, contract work, and alliance/partnership) and found that each employment mode was associated with a particular configuration of HRM practices (i.e. commitment-based, productivity-based, compliance-based, and collaborative respectively).

The importance of collective employee behaviors and relationships that underlie organizational capabilities, and the need to adjust HRM practices to the particularities of different employee groups, require the HR department to interact with stakeholders inside the organization in order to optimize the design and implementation of HRM practices. Tsui (1990), for example, proposed a multiple constituency model of effectiveness for the HRM department and identified executives, line managers, employees, job applicants, and union officials as the most typical stakeholders to interact with the HR department. From a stakeholder perspective, the adjustment of HRM practices to internal stakeholder interests represents a stronger resource inducement as provided by the firm. In response, internal stakeholders are expected to reciprocate with behaviors that sustain organizational capabilities and allow for the attainment of the goals of the firm. Taken together, we expect that consideration of internal stakeholder interests in the definition and deployment of HRM practices has a positive effect on the contribution of such practices to the development of organizational capabilities that ultimately drive firm performance:

> *Hypothesis I: Consideration of internal stakeholder interests in the definition and deployment of HRM practices is positively related to the enhancing effect of HRM practices on organizational capabilities.*

2.3. Consideration of external stakeholder interests

While the effects of HRM practices that are aligned with internal stakeholder interests allow for a generic enhancement of organizational capabilities, Ulrich and Brockbank (2005) suggested that the value of organizational capabilities, and thus the criteria to which HRM practices must respond, is ultimately determined by external stakeholders, such as customers, investors, or communities. Similarly, Becker and Huselid (2006) proposed that HRM practices may affect firm performance through differentiated fit. Differentiated fit refers to the alignment of skills, behaviors and attitudes of different employee segments with required organizational capabilities. Required organizational capabilities are derived from organizational goals and reflect decisions regarding how those goals are to be pursued. Applying a stakeholder perspective, required organizational capabilities result from the goal-setting process in which the organization's management interacts with its strategic stakeholders. Moreover, as the value of an organization's resource deployments is determined in the market environment (Priem & Butler, 2001), the value of organizational capabilities on which such deployments are based increases to the extent that they cater to factor market actors' needs. As a stakeholder perspective allows for identification of factor market actors, such as clients, investors and communities, the organization is able to acquire information regarding such needs and, hence, what organizational capabilities are valued.

As external stakeholder needs influence the definition of organizational capabilities, consideration of such needs in the definition and deployment of HRM practices may positively affect the contribution of HRM practices to the creation of such capabilities. Bowen and Ostroff (2004) attributed a signaling function to HRM practices that helps employees to make sense of their work situation. Organizations can build collective perceptions, attitudes and behaviors as a result of employees' appropriate interpretation and response to the information conveyed in HRM practices (Bowen & Ostroff, 2004). As a result, HRM practices that convey external stakeholder needs to the organization's employees, will elicit collective behaviors and relationships among employees that sustain organizational capabilities that allow for resource deployments that are valued by external stakeholders. Thus, we expect that consideration of external stakeholder interests has a positive effect on the contribution of HRM practices to the development of required organizational capabilities.

> *Hypothesis II: Consideration of external stakeholder interests in the definition and deployment of HRM practices is positively related to the enhancing effect of HRM practices on organizational capabilities.*

2.4. The mediating effect of organizational capability enhancement

More recent SHRM research emphasizes the mediating role of human capital and collective employee relationships and behaviors in linkages between HRM practices and indicators of firm performance. For example, Sun et al. (2007) found a mediating effect of service-oriented OCBs in the relationship between HRM practices and productivity, and Collins and Smith (2006) found that higher sales growth and revenue from new products and services resulted from effects of HRM practices on social climates that favor knowledge exchange. In a similar vein, we expect that stakeholder-oriented HRM practices contribute to organizational effectiveness through an enhancing effect on organizational capabilities of such HRM practices. To the extent that HRM practices elicit the behaviors that sustain required organizational capabilities, they will contribute to the organization’s effectiveness in responding to stakeholder interests and achieving its own goals. Thus:

> *Hypothesis III: Internal and external stakeholder oriented HRM practices are positively related to organizational effectiveness through their enhancing effect on organizational capabilities.*

CHAPTER 3

METHODS

3.1. Sample

To test the proposed model as depicted in Figure 1, we used data obtained through an international on-line survey of HR executives and line managers at 201 business units from five geographical areas. While largely a convenience sample, participation in the study did not depend exclusively on invitations on behalf of the research team. For example, in most countries, we relied on collaboration from local HRM associations to invite firms to participate. While we cannot establish a response rate, we actively monitored the composition of the sample, aiming to include companies from different countries, different kinds of industries and of different sizes. Data were collected between May and November 2006.

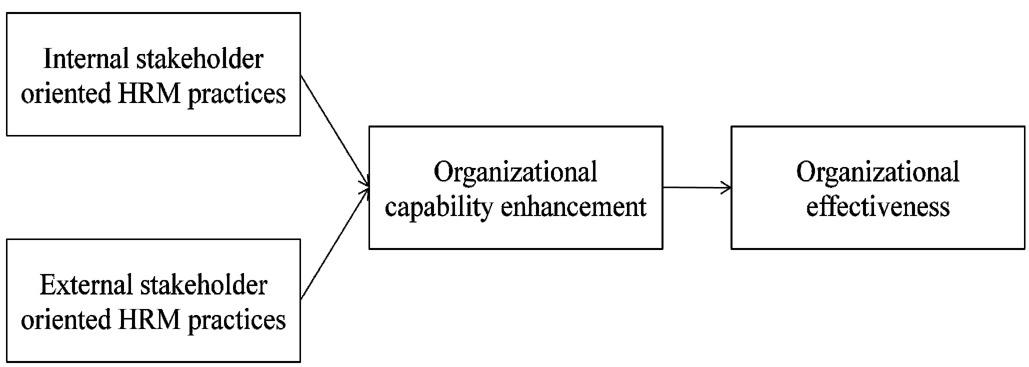

Figure 1:
Linking Stakeholder-oriented HRM Practices and Organizational Effectiveness

As a result of extensive debates on measurement issues in the SHRM literature, we collected our data taking into account the following observations. First, Wright, Gardner, Moynihan, Park, Gerhart, and Delery (2001) detected low reliability of research findings at the corporate level of analysis measurement error due to variation in HRM practices across lines of business and locations. Consequently, we gathered data from individuals within a particular business unit in order to allow for business unit-level analyses. Second, since HR professionals have been found to have a more optimistic view of the effect of HRM practices (Wright, McMahan, Snell & Gerhart, 2001), we obtained this information from non-HR respondents. Third, Huselid and Becker (2000) noted that senior HR executives are better positioned to assess HRM practices as they are more knowledgeable about specific HRM issues. Therefore, we asked the most senior HR professional about the extent to which internal and external stakeholders were considered in the definition and deployment of HRM practices. Fourth, evidence provided by Gerhart, Wright, McMahan, and Snell (2000) regarding the questionable reliability of measures of HRM practices stemming from single respondents, led us to exclude business units for which we had less than four line management respondents for assessments of HRM practices and organizational effectiveness in order to avoid single-rater induced measurement error. Fifth, in order to avoid common method variance (Podsakoff, MacKenzie, Lee & Podsakoff, 2003) in the assessments of HRM practices and organizational effectiveness, we used a split-sample procedure to obtain two groups of line management respondents. For each business unit, responses of the first group of line managers were used for our measure of organizational capability enhancement through HRM processes, and responses of the second group were used for our measure of organizational effectiveness. ANOVAs at the business unit level indicated no significant differences between groups in the assessments of either variable. Our final sample included responses of 201 senior HR executives and 2,849 line managers from a total of 201 business units. 50.7% of participating business units had manufacturing as their principal activity, 34.3% was primarily dedicated to services, and 14.9% to other activities. 38.3% of participating business units had more than 1,000 employees. Individual respondents were geographically distributed between North America (28.3%), Latin America (20.3%), Europe (14.6%), China (28.1%), and Australia (8.7%).

3.2. Survey translation

The questionnaire was originally designed in English by the international research team in order to guarantee that questions were relevant in different regions. We applied a translation and back-translation procedure (Brislin, 1980) to administer the questionnaire in Chinese, French, German, Spanish and Portuguese. Translations and back-translations were performed by professional translators. The content adequacy of specific translated HRM concepts was reviewed by the researchers in charge of each region and verified by a professor of HRM, whose native language was the target language and who was proficient in English.

3.3. Variables and measures

Internal and External stakeholder oriented HRM practices. We distinguished between internal and external stakeholder interests as determinants of organizational goal-setting and, hence, of the design and implementation of HRM processes. Since different organizations may interact with different stakeholders, we only used items that referred to stakeholders that most organizations are related to. Because HR professionals have the primary responsibility for the design and development of HR practices they have more first hand knowledge of the process and rationale underlying their design. Thus we used the HR respondents for these measures.

In order to examine whether the data fitted our distinction between internal and external stakeholders, we conducted a confirmatory factor analysis. Specifically, we compared a model with items referring to external stakeholders loading onto one factor and internal stakeholder items loading onto a second factor, to a model in which all items loaded onto one single factor. The results indicated poor fit of the one-factor model ($\chi^2_{(14)} = 94.12$; RMSEA = .18; CFI = .82; NFI = .80) but acceptable fit of a two-factor model that distinguished between internal and external stakeholders ($\chi^2_{(13)} = 21.91$; RMSEA = .06; CFI = .98; NFI = .95), which was significantly better ($\chi^2_{(1)} = 72.21$; $p < .01$).

We measured internal stakeholder consideration applying a scale focused on the extent to which line managers or employees were involved in the design and implementation of HRM practices (see: Appendix 1). The senior HR executive of each participating business unit was asked to assess items such as "To what extent does your HR department involve line managers in the design and delivery of HRM practices" or "To what extent does your HR department build an employee value proposition that lays out what is expected from employees and what they get in return". Items were rated from 1 (= very little extent) to 5 (very large extent). The scale's internal consistency was .81.

We measured the external stakeholder oriented HRM practices by asking the senior HR executive at each participating business unit to assess to what extent customers, shareholders, and communities are considered in the design and delivery of HRM practices (see: Appendix 1). Items were rated from 1 (= very little extent) to 5 (very large extent). Sample items included "To what extent does your HR department build HRM practices that add value to external customers" and "To what extent does your HR department build HRM practices that shareholders (or those who provide capital) value". The scale's internal consistency was .75.

Organizational capability enhancement. Because line managers observe the "effect" of the HRM practices, we asked them to provide the measures of the extent to which practices enhanced organizational capabilities. As explained above, half of the line respondents were randomly chosen to provide this measure. Since organizations may adopt different HRM practices, we asked line managers to what extent they considered their organization's HRM processes enhanced organizational capabilities, irrespective of the specific HRM practices encompassed in these processes. For example, instead of asking whether cognitive ability tests were used to select employees, we asked to what extent the staffing process enhanced organizational capabilities. This approach acknowledges the equifinality of different sets of HRM practices and allows for organizational idiosyncrasies in SHRM. The items included referred to common HRM processes such as staffing, training, or rewards (see: Appendix 1) and were measured on a Likert scale that ranged from 1 (= very little extent) to 5 (= very large extent). To account for the possibility that a particular process was not implemented in an organization, respondents were allowed to give a 'does not apply' answer. As a result, the average score of the items on this scale represents the extent to which any set of HRM practices adopted by the organization to perform HRM processes enhances its capabilities. Individual level CFA suggested acceptable fit of the data to a model with items loading onto one single factor ($\chi^2_{(14)}$ = 329.31; RMSEA = .09; CFI = .96; NFI = .96). The internal consistency of the scale, measured as coefficient alpha, was .88.

Congruent with arguments by Tsui et al. (1997) and Lepak and Snell (1999), HR departments may apply different HRM practices to different employee groups, which may cause different perceptions of the extent to which HRM processes enhance organizational capabilities. Consequently, we assessed ICC(1) and ICC(2) values (Bliese, 1998) before aggregation of line manager perceptions to the business unit level of analysis. The ICC(1) value was .12 which is within the recommended range of .05-.20 (Bliese, 2000). The ICC(2) value was .66 which is above the .60 cutoff proposed by Glick (1985). Finally, the F-test was significant, indicating the appropriateness of aggregation (Bliese, 2000).

Organizational effectiveness. Since line managers are more knowledgeable about the performance of their business units, we used data obtained from the other half of the line managers for our measure of organizational effectiveness. We measured organizational effectiveness as line managers' assessment of their business unit's performance relative to its principal competitor on a set of items that referred to both stakeholder interests and indicators of the organization's operational effectiveness. As regards stakeholder interests, we recognized that different organizations may interact with different stakeholders according to their kind of activity, position in the value chain, capital structure, size, etc. Gerhart (2007b) suggested that a stakeholder perspective of organizational performance should, at minimum, consider shareholders, customers, and employees. We asked respondents to indicate to what extent their business unit met customer and shareholder requirements, its regulatory compliance, and its overall employee engagement. Items related to operational effectiveness included the business unit's ability to create and leverage new technology, and to control costs (see: Appendix 1). Items were rated on a Likert scale that ranged from 1 (= very little extent) to 5 (= very large extent). Individual level CFA suggested acceptable fit of the data to a model with items loading onto one single factor ($\chi^2_{(9)} = 17.06$; RMSEA = .07; CFI = .98; NFI = .96). The internal consistency of the scale, measured as coefficient alpha, was .86.

Although the use of perceived performance as a dependent variable may increase measurement error and potentially introduce common method variance (Podsakoff et al., 2003), it is not unprecedented. For example, Delaney and Huselid (1996) justified their use of perceptual data based on research by Dollinger and Golden (1992), who found measures of perceived organizational performance to correlate positively with objective measures of firm performance. In a similar vein, a study on the validity of subjective measures of company performance by Wall, Michie, Patterson, Wood, Sheehan, Clegg, and West (2004) indicated a considerable positive association between subjective and objective measures of firm performance. Furthermore, Wall et al. (2004) did not find any significant differences in correlations between various management practices and either subjective or objective measures of performance.

In the field of international HRM, researchers often suffer the lack of availability of or access to archival data on firm performance. Studies conducted in countries such as Greece (Vlachos, 2008), Japan (Takeuchi et al., 2007), the Philippines (Audea, Teo & Crawford, 2005), or India (Singh, 2004), relied on perceptions of performance as a dependent variable. Moreover, the use of objective performance data in cross-national studies is arguably less reliable given different national financial reporting requirements, exchange rates, transfer pricing, etc.

One of the major concerns with subjective assessments of performance is that it leads to common method bias when the independent variables come from the same source as the performance measure. As noted before, the HRM measures came from the HR respondents, the capability measure from one set of line respondents, and the effectiveness measure from a different set of line respondents. Thus, we minimized the extent to which common method variance could account for the results.

Given potentially different perceptions of organizational effectiveness at the individual level, we examined intraclass correlations before aggregation to the business unit level in order to assess the reliability of the aggregated measure (Bliese, 1998). ICC(1) provides an estimate of the total variance of a measure that is explained by unit membership or to what extent one rater from a group represents all raters in a group. The ICC(1) value of our organizational effectiveness measure was .12 which is within the recommended range of .05-.20 (Bliese, 2000).

The ICC(2) value represents the reliability of group means within a sample. The ICC(2) value was .66 which is above the .60 cutoff proposed by Glick (1985). Also, the F-test for organizational effectiveness was significant, indicating the appropriateness of aggregation (Bliese, 2000).

Control variables. Because of the cross-national focus of our study, we controlled for geographic area in order to account for variance due to contextual (Brewster, 1999) or institutional differences (Paauwe, 2004). In line with prior research (e.g. Becker & Huselid, 1998; Datta et al., 2005), we controlled for industry type and firm size. We created dummy variables to classify participating business units as operating in the manufacturing, services or other industries. The ‘other industries’ category includes the agriculture, oil and mining, utilities, and transportation industries. We controlled for business units’ number of employees for two reasons. First, institutional theory suggests that larger organizations are more visible and, as a result of their need to gain legitimacy, should adopt more sophisticated and socially responsive HRM practices (Jackson & Schuler, 1995; Wright & McMahan, 1992). Second, whereas in smaller firms HRM may be informal and based on founders’ principles (Baron, Hannan & Burton, 1999), the complexity of larger firms requires more formalized systems that sustain organizational integration. As a result, the perceived added value of HRM practices may vary according to size. Since we obtained information on the number of employees through a categorical variable, we created a dummy variable (0 = 0-1,000 employees, 1 = 1,000+ employees).

CHAPTER 4

RESULTS

Table 1 reports the means, standard deviations and correlations of all variables. In general, our results showed significant correlations between dependent and independent variables. Both internal and external stakeholder focus were significantly related to HRM processes, and HRM processes were significantly related to organizational effectiveness.

We used OLS analyses to test our hypotheses regarding the effects of internal and external stakeholder oriented HRM practices and present the results in Table 2. First, as shown in model 2, we found a significant relation ($\beta = .32$; $p < .01$) between internal stakeholder oriented HRM practices and organizational capability enhancement when controlling for geographic area, industry type and firm size. Thus, we found support for hypothesis I: consideration of internal stakeholders in the design and deployment of HRM practices is positively associated with the enhancement of organizational capabilities through the HRM processes that comprise these practices. Second, model 3 indicates that external stakeholder oriented HRM practices are significantly related ($\beta = .44$, $p < .01$) to our capability enhancement measure when controlling for geographic area, industry type and firm size. Thus, we found support for hypothesis II: consideration of external stakeholder interests in the design and deployment of HRM practices is positively associated with HRM process driven enhancement of organizational capabilities. Third, model 4 shows that when both internal and external stakeholder oriented HRM practices are included as predictors of enhancement of organizational capabilities, only external stakeholder orientation is significantly related ($\beta = .37$, $p < .01$). Fourth, geographic location was a relevant

Table 1

Descriptive Statistics

		Mean	SD	1	2	3	4	5
1.	North America	0.26	0.44					
2.	Latin America	0.31	0.46	-.40**				
3.	Europe	0.06	0.24	-.15*	-.17*			
4.	China	0.26	0.44	-.36**	-.40**	-.15*		
5.	Australia	0.10	0.31	-.20**	-.23**	-.09	-.20**	
6.	Manufacturing	0.51	0.50	-.11	.10	.08	.12	-.22**
7.	Services	0.34	0.48	.26**	-.07	-.09	-.20**	.10
8.	Other	0.15	0.36	-.19**	-.04	.01	.10	.18*
9.	Employees (1 = 1,000+)	0.62	0.49	.15*	-.14*	.11	-.06	.00
10.	External stakeholder oriented HRM practices	3.81	0.68	.14*	-.04	.01	-.09	-.01
11.	Internal stakeholder oriented HRM practices	3.35	0.67	.06	.16*	-.05	-.23**	.04
12.	Organizational capability enhancement	3.65	0.39	.00	.11	-.17*	.01	-.06
13.	Organizational effectiveness	3.82	0.36	.16*	.01	-.01	-.11	-.08

** Correlation is significant at the 0.05 level (2-tailed)*
*** Correlation is significant at the 0.01 level (2-tailed)*

Table 1 (Continued)

Descriptive Statistics

	6	7	8	9	10	11	12
1. North America							
2. Latin America							
3. Europe							
4. China							
5. Australia							
6. Manufacturing							
7. Services	-.73**						
8. Other	-.43**	-.30**					
9. Employees (1 = 1.000+)	-.08	-.01	.13				
10. External stakeholder oriented HRM practices	.07	-.16*	.12	.05			
11. Internal stakeholder oriented HRM practices	-.04	-.08	.16*	.03	.55**		
12. Organizational capability enhancement	-.01	-.07	.10	-.03	.32**	.43**	
13. Organizational effectiveness	-.16*	.11	.08	.00	.22**	.25**	.40**

predictor of differences between business units regarding the enhancement of organizational capabilities through HRM processes. Being located in North America, Latin America, or China was associated with stronger effects of stakeholder consideration on organizational capability enhancement (North America: $.25 < \beta_{m1\text{-}4} < .34$, $p < .1$; Latin America: $.31 < \beta_{m1\text{-}4} < .40$, $p < .05$; China: $.30 < \beta_{m1\text{-}4} < .34$, $p < .05$) in model 1 through 4, when controlling for all other variables included. Business units located in Australia did not differ significantly from their European counterparts.

We examined the mediated effects of internal and external stakeholder oriented HRM practices on organizational effectiveness in models 1 to 3 in Table 3. Following Baron and Kenny’s (1986) three-step procedure, we first examined the relationships between the independent and dependent variables. Given that the relationship between internal stakeholder orientation and organizational capability enhancement was non-significant when considered in combination with external stakeholder orientation, we focused our mediation analyses exclusively on external stakeholder orientation. Model 2 in Table 3 shows that our measure of external stakeholder oriented HRM practices was significantly associated with organizational effectiveness ($\beta = .22$, $p > .01$), after controlling for geographic area, industry, number of employees. In the second step, we found a strongly significant association between external stakeholder oriented HRM practices and organizational capabilities enhancement ($\beta = .37$, $p < .01$), as represented in model 4 of Table 2. In the third and final step, we examined changes in the effects of stakeholder oriented HRM practices when the organizational capability enhancement variable was added to the regression analyses predicting organizational effectiveness. Model 3 of Table 3 shows that the external stakeholder oriented HRM

Table 2:

Results of Regression Analyses Predicting Organizational Capability Enhancement[a]

Parameters	**Model 1**	**Model 2**	**Model 3**	**Model 4**
North America	.34*	.28*	.26*	.25†
Latin America	.40**	.40**	.31**	.32*
China	.30*	.32*	.34**	.34**
Australia	.15	.14	.11†	.11
Manufacturing	-.16	-.12	-.06	-.06
Services	-.20†	-.09	-.06	-.04
Employees	-.02	-.02	-.03	-.03
Internal stakeholder consideration		.32**		.12
External stakeholder consideration			.44**	.37**
R-square	.06	.15	.23	.24
Δ R-square	.06	.09	.08	.01
F-statistic	1.67	4.29**	7.07**	6.60**
df	7 & 193	8 & 192	8 & 192	9 & 191

[a] *Standardized coefficients are shown*

Note: † p < 0.1
* p < 0.05
** p < 0.01

Table 3

Results of Regression Analyses Predicting Organizational Effectiveness[a]

Parameters	**Model 1**	**Model 2**	**Model 3**
North America	.11	.07	-.03
Latin America	.00	-.03	-.15
China	-.09	-.06	-.19
Australia	-.12	-.13	-.17†
Manufacturing	-.24*	-.18†	-.17†
Services	-.11	-.11	.00
Employees	-.05	-.05	-.04
External stakeholder consideration		.22**	.10
Organizational capability enhancement			.37**
R-square	.06	.11	.23
Δ R-square	.06	.05	.12
F-statistic	1.90†	2.87**	6.15**
df	7 & 193	8 & 192	9 & 191

[a] *Standardized coefficients are shown*

Note: † $p < 0.1$
* $p < 0.05$
** $p < 0.0$

practices variable was no longer significant when organizational capability enhancement was added ($\beta_{External}$ = .10, p = .18), while the overall R^2 of the model increased. The change in the beta coefficients suggests that approximately 55 percent of the relationship between external stakeholder oriented HRM practices and organizational effectiveness was explained by the organizational capability enhancement mediator. Hence, hypothesis III was partially supported: external stakeholder oriented HRM practices have an effect on organizational effectiveness through organizational capability enhancement.

CHAPTER 5

DISCUSSION AND CONCLUSION

The purpose of our study was to apply a stakeholder perspective to SHRM as an alternative contingency approach. Given the influence of stakeholders in organizational goal-setting, we argued that the extent to which stakeholder interests are considered in the design and deployment of HRM practices is positively related to these practices' contribution to building required organizational capabilities, which ultimately drive organizational performance. We distinguished between internal stakeholders and external stakeholders and confirmed empirically that consideration of both stakeholder groups enhances organizational capabilities. A stakeholder perspective on organizational performance implies that organizations have multiple and different goals, and that organizations may be equally effective although they pursue their goals in different ways. We incorporated this notion of equifinality in our study by focusing on the effect of HRM processes on organizational capabilities, regardless of the actual HRM practices that sustain processes, and defined a broad measure of organizational effectiveness that included stakeholder interests. We found partial support for a relationship between stakeholder oriented HRM practices and organizational effectiveness, mediated by organizational capability enhancement resulting from HRM processes.

From a practitioner perspective, the effects we discovered indicate that HR professionals should pay attention to the particular interests of stakeholders when defining and implementing HRM practices. While consideration of external stakeholders allows for alignment of HRM practices with organizational goal-setting, consideration of internal stakeholders is relevant to both alignment of HRM practices and fostering employees' contribution to the implementation of organizational strategies. Our analyses suggest that a one standard deviation increase in external stakeholder focus is associated with a 0.44 standard deviation increase in the extent to which HRM processes enhance organizational capabilities. Moreover, a 0.44 standard deviation increase of organizational capabilities enhancement, is associated with a 0.18 standard deviation increase in overall organizational effectiveness.

From a SHRM research perspective, our findings support a growing base of research that aims to understand why different firms adopt different HRM practices (e.g. Colbert, 2004; Kehoe & Collins, 2008), and to include contextual factors in explanations of the effect of HRM practices on firm performance (e.g. Batt, 2002; Datta et al., 2005; Sun et al. 2007). We consider that future research may benefit from further exploration of the principle of equifinality in the relationship between HRM practices and firm performance. Likewise, while we applied a stakeholder perspective to SHRM, future research may explore the effect of other organization-level contingencies on HRM practices.

Notwithstanding the contributions of this study, our findings are the result of research that had several limitations. First, our study is based on perceptual data for both independent and dependent variables, which may have led to measurement error. Although objective and subjective measures of firm performance correlate strongly across contexts (Dollinger & Golden, 1992; Wall et al., 2004), we have attempted to reduce the potential for measurement error as much as possible in several ways. First, we collected data from the most reliable corresponding sources. Data regarding consideration of stakeholders in the design and deployment of HRM practices was collected from the senior HR executive of each business unit, while data regarding the effect of HRM processes on organizational capabilities and firm performance was collected from line managers. Furthermore, in order to avoid common method variance (Podsakoff et al., 2003), we split the sample of line managers into two groups and used data from only one group per variable. Also, we obtained our business-unit level data on the effect of HRM processes and on organizational effectiveness by aggregating responses of multiple raters to avoid single-rater induced error (Gerhart et al., 2000; Wright et al, 2001). While we found that a stakeholder approach to SHRM identifies significant effects on firm performance, future research may obtain more precise estimates of these effects by using objective data.

A second limitation regards the coarseness of the control variables. Notwithstanding a warning by Gerhart (2007b) that including too many control variables may alter effect sizes, we found that the control variables in our study indicated significant differences between geographical areas but provided little information regarding the causes of these differences. For example, extending arguments by Brewster (1999) and Paauwe (2004) we could argue that the significantly lower effect of considering stakeholders in Europe as compared to North America is due to the fact that stakeholders are more generally considered and, hence, not differential in explaining value added through HRM practices. An alternative explanation, however, could be that European respondents rated consideration of stakeholders in HRM systematically lower than respondents in North America. Future research may address these issues in more detail.

We conclude that our study makes a case for returning to contingent approaches to SHRM research. Our measures of internal and external stakeholder focus were significantly related to the extent to which HRM processes contribute to organizational capabilities. Our findings suggest that HRM professionals may increase their impact on firm performance by deepening their understanding of stakeholder interests and by incorporating this information in the design and deployment of HRM practices. Hence, while SHRM researchers continue to make progress in unraveling the mechanisms through which HRM practices affect organizational performance, we suggest that further research is needed to understand the conditioning effects of relations between the organization and its stakeholders on HRM practices and organizational effectiveness as well.

APPENDIX 1

SCALES AND ITEMS

Stakeholder orientation items:

To what extent does your organization:

- Build HRM practices that add value to external customers
- Involve customers in the design and delivery of HRM practices
- Build organizational capabilities that investors (or those who provide capital) value
- Build HRM practices that add value to the communities
- Involve line managers in the design and delivery of HRM practices
- Build an employee value proposition that lays out what is expected from employees and what they get in return
- Involve employees in design and delivery of HRM practices

HRM process-based capability enhancement items:

To what extent do the following HR processes enhance your organizations' capabilities?

- Talent assessment
- Staffing
- Training and development
- Performance appraisal
- Rewards
- Coaching
- Workplace policies

Organizational effectiveness items:

How does your business compare to its major competitor on each of the following items?

- Meeting customer requirements
- Meeting owners/shareholders requirements
- Creating and leveraging new technology
- Regulatory compliance
- Cost control
- Employee engagement

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