

BUSINESS STRATEGY, HUMAN RESOURCE MANAGEMENT
PRACTICES AND EMPLOYEE OUTCOMES: STRUCTURAL
EQUATION MODELING

KOON VUI YEE

ASIA e UNIVERSITY

2012

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A Thesis Submitted to the School of Management,
Asia e University in Fulfilment of the
Requirements for the Degree of
Doctor of Philosophy
in Business Administration

April 2012

ABSTRACT

This study investigated the effects between two business strategies (differentiation and low-cost) and six human resource management (HRM) practices (recruitment & selection, training & development, compensation, performance management, employment security and work-life balance) on employee outcomes (organisational commitment, employee turnover, employee involvement and job satisfaction) and the extent to which such effects bring differences to Public and Private Limited companies in Malaysia. Therefore, the main objective of this study was to develop the conceptual model to measure the interaction effects of business strategy, HRM practices on employee outcomes. Four sub-objectives investigated to accomplish the main objective of the study. The first sub-objective was to investigate the effect of different business strategy to HRM practices. The second sub-objective of this study was to investigate the effect of business strategy and HRM practices on the four variables of employee outcomes. The third sub-objective of this study was to investigate whether any variance or differences among Public and Private Limited companies of the effect between business strategy and HRM practices. The fourth sub-objective was to investigate whether any variance among Public and Private Limited companies of the interrelationship between business strategy and HRM practices on employee outcomes.

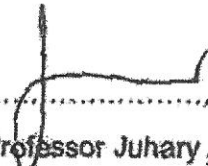
Structural equation modelling was used to examine the effect of business strategy to HRM practices and the interrelationships of them to employee

outcomes. The psychometric properties of these measures were investigated through confirmatory factor analysis.

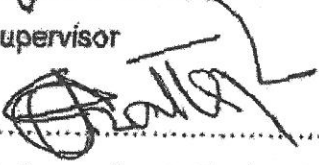
This study found that differentiation strategy was one of the business strategies that tend to emphasize on all six HRM practices while low-cost strategy found to emphasize on four HRM practices only. HRM practices found to mediate the interaction of business strategy and employee outcomes. The results also indicated that the effects of business strategy and HRM practices implemented in Public Limited companies on employee outcomes were only slightly different from the ones implemented in Private Limited companies. Types of business ownership moderate the interrelationship effect of business strategy and HRM practices on employee outcomes. The results showed invariant between differentiation strategy but variant in low-cost strategy.

APPROVAL PAGE

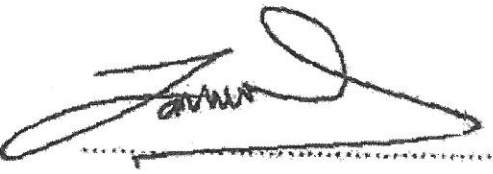
I certify that I have supervised/read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfillment of the requirements for the degree of Doctor of Philosophy.


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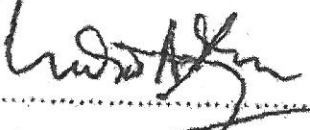

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Declaration

I hereby declare that the thesis is submitted in fulfillment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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Signature of Candidate:

A handwritten signature in black ink, appearing to read 'Koon Vui Yee', written in a cursive style.

Date: 22 April 2012

ACKNOWLEDGEMENTS

I would especially like to thank to my supervisor, Professor Dr. Juhary Haji Ali for his invaluable guidance and assistance. His guidance and support was instrumental in the data collection, analysis, and completion of this dissertation. He has made my experiences in the doctoral program both educational and rewarding.

I would also like to acknowledge and thank Professor Dr. Siow Heng Loke and Dr. Soon Seng Thah for their research methodology and quantitative workshop conducted.

I am especially indebted to Advanced Diploma in Business Studies (Business Administration) Year 1 students, in the Academic Year 2009/2010, for their invaluable assistance with survey distribution and data collection. Without their assistance, this dissertation would not have been possible.

I am extremely grateful to all of the people in the Asia e University who helped me to overcome the obstacles of the doctoral program. I would like to thank faculty members, the faculty services office, and the doctoral studies office.

I would also like to acknowledge all of the teachers and mentors in my life who guided me along my educational path. I also thank my family for their support and encouragement.

TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS	ii
LIST OF TABLES	ix
LIST OF FIGURES	xiii
CHAPTER 1 INTRODUCTION TO THE STUDY	
1.1 Introduction	1
1.2 Background of the Study	1
1.3 Problem Statement	3
1.4 Purpose of the Study	9
1.5 Significance of the Study	10
1.6 Research Questions	12
1.7 Assumptions	12
1.8 Definition of Terms	13
1.9 Organization of Remaining Chapters	16
CHAPTER II LITERATURE REVIEW, HYPOTHESES AND CONCEPTUAL FRAMEWORK	
2.1 Introduction	18
2.2 Strategy	18
2.3 Business Strategy	20

2.4	Background to HRM	27
2.5	Strategic Human Resource Management (SHRM) Views	30
2.6	Development Models of Strategic Human Resource Management (SHRM)	32
2.7	Theoretical Perspectives of SHRM	38
2.7.1	Universalistic Perspective	38
2.7.2	Contingency Perspective	43
2.7.3	Configurational Perspective	45
2.8	Human Resource Management (HRM) Practices	48
2.8.1	Recruitment and Selection	48
2.8.2	Training and Development	50
2.8.3	Compensation	51
2.8.4	Performance Management	53
2.8.5	Employment Security	55
2.8.6	Work-Life Balance	57
2.9	Importance of Measuring Employee Outcomes	59
2.10	Empirical Evidence of the Link between SHRM and Employee Outcomes	61
2.10.1	Individual HRM practices with employee outcomes	61
2.10.2	HRM systems with employee outcomes	62
2.10.3	HRM practices as Strategic Orientation with	66

Employee Outcome

2.11	Differences of Large Firms and Small Firms in Business Strategy, HRM	68
	Practices and Employee Outcomes	
2.12	Hypotheses	79
2.13	Conceptual Framework	88
2.14	Conclusions	94
CHAPTER III METHODOLOGY		
3.1	Introduction	96
3.2	Selection of Subjects	96
	3.2.1 Population Set	96
	3.2.2 Industry Setting	98
	3.2.3 Respondent Selection	99
3.3	Data Collection	100
3.4	Respondents Profile	103
3.5	Measure: Overview of Instruments	106
	3.5.1 Human Resource Manager Survey	106
	3.5.2 Non-Human Resource Department Employee Survey	107
3.6	Scale Development	108
3.7	Construct Measures	109
	3.7.1 Business Strategy Measure	110

3.7.2	HRM Practices Measure	112
3.7.3	Employee Outcomes Measure	114
3.8	Statistical Design and Analysis	115
3.9	Conclusions	123
CHAPTER IV FINDINGS		
4.1	Introduction	124
4.2	Preliminary Examination of Data	124
4.2.1	Data Cleaning and Screening	125
4.3	Descriptive Analysis of the Demographic Information	137
4.4	Descriptive Analysis of Business Strategy	141
4.4.1	Reliability Analysis of Business Strategy	143
4.5	Descriptive Analysis of HRM Practices	144
4.5.1	Reliability Analysis of HRM Practices	150
4.6	Descriptive Analysis of Employee Outcomes	155
4.6.1	Reliability Analysis of Employee Outcomes	158
4.7	Measurement Model Testing	161
4.7.1	First-Order CFA Model of Business Strategy (BS)	161
4.7.2	Second-Order CFA Model of BS	169
4.7.3	First-Order CFA Model of HRM Practices (HRMP)	171
4.7.4	Second-Order CFA Model of HRMP	180

	4.7.5	First-Order CFA Model of Employee Outcomes (EO)	185
	4.7.6	Second-Order CFA Model of EO	194
4.8		Structural Model Testing	198
	4.8.1	Model 1: Relationship among BS and HRMP	198
	4.8.2	Model 2: The effect of BS associated with HRMP on EO	208
4.9		Mediation Analysis	218
4.10		Moderation Analysis	232
	4.10.1	Model 1	232
	4.10.2	Model 2	241
CHAPTER V		DISCUSSIONS	
5.1		Introduction	250
5.2		Recapitulation of the Study's Findings	250
5.3		Interpretations	253
5.4		Review of the Findings	256
CHAPTER VI		CONCLUSIONS, IMPLICATIONS AND RECOMMENDATION	
6.1		Introduction	278
6.2		Summary of the Study	278
6.3		Contributions and Implications of the Study	280
6.4		Limitations of the Study	285

6.5	Recommendations for Further Study	288
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APPENDIXES

A	Survey Questionnaire for Non-HR Department Employees	290
B	Survey Questionnaire for HR Manager	299
C	Economic Activities under Broad Sectors for Approved and Working Small Medium Enterprise Definitions	306

REFERENCES		309
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LIST OF TABLES

Number		Page
2-1	View of Strategic HRM	31
2-2	Comparative Lists of Best Practices	42
3-1	Summary on the approved SME definitions based on number of full-time employees	98
3-2	Summary of Total Number and Percentage of Respondents	104
3-3	Spread of Usable Survey by Sector and Types of Business Ownership	106
3-4	Deviation of Items for the Study	109
3-5	Questionnaires Items of Business Strategy	111
3-6	Questionnaires Items of HRM Practices	113
3-7	Questionnaires Items of Employee Outcomes	115
3-8	Measures used in Model-Building to determine Goodness-of-Fit	121
4-1	Survey Items Omitted from Analysis	126
4-2	Potential Univariate Outliers	128
4-3	Skewness and Kurtosis of Observed Variables (Non-HR Employee)	131
4-4	Skewness and Kurtosis of Observed Variables (HR Manager)	132
4-5	Means and Standard Deviation for Multivariate Outliers and Non-outliers (Non-HR Employee)	135
4-6	Means and Standard Deviation for Multivariate Outliers and Non-outliers (HR Manager)	135
4-7	Spread of respondents after data cleaning process by sector and types of business ownership	137
4-8	Frequency of Respondent Profile (Non-HR Employee)	139
4-9	Frequency of Company's General Information (HR Managers)	140
4-10	Descriptive Analysis of Business Strategy	142
4-11	Reliability Scores and Square Multiple Correlations for the Business Strategy Subscales	144

LIST OF TABLES

(Continued)

Number		Page
4-12	Descriptive Analysis of HRM Practices	147
4-13	Reliability Scores and Square Multiple Correlations for the HRM Practices	153
4-14	Descriptive Analysis of Employee Outcomes	157
4-15	Reliability Scores and Square Multiple Correlations for the Employee Outcomes Subscales	160
4-16	Parameter Estimates for Hypothesized and Modified CFA Model of Business Strategy	166
4-17	Goodness-of-Fit Statistics of Hypothesized and Modified CFA Model of Business Strategy	167
4-18	Parameter Estimates for Hypothesized and Modified Second-Order CFA Model of Business Strategy	170
4-19	Goodness-of-Fit Statistics of Hypothesized and Modified Second-Order CFA Model of Business Strategy	170
4-20	Goodness-of-Fit Indices from the Confirmatory Factor Analysis of the HRM Practices Model	172
4-21	Succession of HRM Practices Variables Removed from the Hypothesized Model	173
4-22	Parameter Estimates for Hypothesized and Modified CFA Model of HRM Practices	175
4-23	Goodness-of-Fit Statistics of Hypothesized and Modified CFA Model of HRM Practices	179
4-24	Parameter Estimates for Hypothesized and Modified Second-Order CFA Model of HRM Practices	180
4-25	Goodness-of-Fit Statistics for Hypothesized and Modified Second-Order 24-indicators CFA Model of HRM Practices	184

LIST OF TABLES

(Continued)

Number		Page
4-26	Goodness-of-Fit Indices from the CFA of the Employee Outcomes Model	188
4-27	Succession of Employee Outcomes Variables Removed from the Hypothesized Model	188
4-28	Parameter Estimates for Hypothesized and Modified Second-Order CFA Model of Employee Outcomes	189
4-29	Goodness-of-Fit Statistics of Hypothesized and Modified Second-Order CFA Model of Employee Outcomes	191
4-30	Parameter Estimates for Hypothesized and Modified Models of Employee Outcomes	195
4-31	Goodness-of-Fit Statistics for Hypothesized and Modified Second-Order 17-Indicators CFA Model of Employee Outcomes	196
4-32	Goodness-of-Fit Results of Hypothesized Model 1	200
4-33	Goodness-of-Fit Results of Modified Model 1	201
4-34	Parameter Estimates for Hypothesized and Modified Model 1	203
4-35	Direct, Indirect and Total Effects of Model 1	207
4-36	Goodness-of-Fit Results of Hypothesized Model 2 of Business Strategy Sub-Variables and HRM Practices Sub-Variables and Employee Outcomes	209
4-37	Regression Weights of Hypothesized Model 2	210
4-38	Goodness-of-Fit Results of Modified Model 2	213
4-39	Regression Weights of Modified Model 2	214
4-40	Steps of Determining Mediation or Indirect Effect	219
4-41	Mediation Effect of HRM Practices on Business Strategy and Employee Outcomes	225

LIST OF TABLES

(Continued)

Number		Page
4-42	Types of Mediation	228
4-43	Goodness-of-Fit Statistics for Tests of Invariance: A summary for Model 1	236
4-44	Estimate of the Model Comparison between Public and Private Limited	238
4-45	Goodness-of-Fit Statistics for Tests of Invariance: A summary for Model 2	246
4-46	Estimates of the Model 2 Comparison between Public and Private Limited Company	247
5-1	Summary of the Hypotheses Testing Results	275

LIST OF FIGURES

Number		Page
2-1	Level of Strategy	20
2-2	Conceptual Model and Associated Hypotheses	93
4-1	Hypothesized 10-indicators CFA Model of Business Strategy	164
4-2	Modified CFA Model for Business Strategy	168
4-3	Hypothesized Second-Order 10-indicators CFA model of Business Strategy	169
4-4	Hypothesized 46-indicators CFA model of Human Resource Management Practices	174
4-5	Modified CFA model for Human Resource Management Practices	178
4-6	Hypothesized Second-Order 24-indicators CFA model of Human Resource Management Practices	181
4-7	Modified Second-Order 24-indicators CFA model of Human Resource Strategy	183
4-8	Hypothesized 23-indicators CFA model of Human Resource Outcomes	186
4-9	Modified first order 17-indicators CFA model of Employee Outcomes	193
4-10	Hypothesized Second-Order 17-indicators CFA model of Employee Outcomes	194
4-11	Modified Second-Order 17-indicators CFA model of Employee Outcomes	197
4-12	Hypothesized Model 1	199
4-13	Modified Model 1	202
4-14	Significant Path resulting from analysis of Model 1	205

LIST OF FIGURES

(Continued)

Number		Page
4-15	Hypothesized Model 2	208
4-16	Modified Model 2	212
4-17	Significant Path resulting from analysis of Model 2	215
4-18	Full model of direct and indirect effects	231
4-19	Results of Model 1 for Public Limited Companies	239
4-20	Results of Model 1 for Private Limited Companies	240
4-21	Results of Model 2 for Public Limited Companies	248
4-22	Results of Modeling for Private Limited Companies	249

CHAPTER I

INTRODUCTION TO THE STUDY

1.1 Introduction

This section describes briefly the background of the study. It explores problem statement, purpose of study, significance of the study, research questions, and assumptions made in the design of this study. The end of this chapter provides the definition of key terms and outline of the dissertation.

1.2 Background of the Study

The study of the influence of human-resource management (HRM) practices on the overall performance of organization has been extensively prominent in the past decades, in developed countries. The results of this analysis showed significant association between HRM practices and organization performance (e.g., Tsui & Wu, 2005; Takeuchi, Wakabayashi, & Chen, 2003; Appelbaum, Bailey & Kalleberg, 2000; Cully, 1999; Harel & Tzafir, 1999; Becker & Gerhart, 1996; Guest, 1997; Dyer & Reeves, 1995; Huselid, 1995). According to Heneman, Tansky and Camp (2000), human resources are an importance capital to organization's success.

Changes or trends that emerge today such as globalization, changes in the nature of work, and technology require HRM practices be more business oriented and strategically focused when managing organization. Rapid changes in technology, product development, production process, manufacturing and the relative size of manufacturing and services organization create a different set of problems that could not be solved with

traditional HRM methods alone (Day, 1994; Drucker, 1986). Through these changes, and modernization, it emphasizes the importance of training and development, selective staffing, compensation, and information sharing as management has begun to realize, that the workers could trigger the execution of organizational goals (Levine, 1995). Effective HRM practices and strategy could improve profitability and bring benefits to the firm (Mavondo, Chimhanzi & Stewart, 2004; Dobni & Luffman, 2000). Dave Ulrich (1997) mentioned that the recent roles for the HR managers were not limited to administrative expert but also played the role as employees champion, change agent and strategic partners of an organization. Manager's role as employee champion is enlarged as managers need to care, listen and respond to employees and these roles remains the centrepiece of HR work.

This owing to the idea that human resource should be viewed as a strategic factor for the role they play in putting managerial strategy into effect, and their potential to become the source of sustainable competitive advantage. HRM practices can help to create a source of ongoing competitive advantage, especially when they aligned with organization's competitive or business strategy (Begin, 1991; Cappelli & Singh, 1992; Jackson and Schuler, 1995). Various studies have proven the role of human resources as one of the important capitals to organizations and discussed on how this capital could be the core competence of an organization.

Despite this evidence, many organizations still adopted a passive approach of HRM practices, although research found these practices could influence the effect to organizational success (Dennis, Michael, & Meredith Blackwell, 2002). Bawa (2000) claimed that organizations in Malaysia, especially firms in the manufacturing sector are

slow in adopting HRM practices. Studies on HRM practices in Malaysian organizations are less (Osman, Ho, & Galang, 2011). Those firms are slow and focus less importance in adopting HRM practices (Chiah-Law, G. & Chris, 2003; Rowley & Abdul-Rahman, 2007; Hassan, 2010).

Presently, most of the studies regarding HRM practices, employee attitudes and performance have conducted in the West, on the domestic operations of United States firms. Smaller number of studies conducted in the United Kingdom, Europe (e.g. Hoque, 1999; Guest & Hoque, 1994) and in Asia, (e.g. Mak & Akhtar, 2003; Wan, Kok & Ong, 2002; Huang & Cullen, 2001; Huang, 2000; Khatri, 2000). Investigations of HRM practices in different settings are necessary to determine its effect on employee attitudes to competitive advantage. Therefore, it is a noteworthy attempt to explore business strategy, HRM practices and employee attitudes of different types of business ownership in Malaysia, specifically Public and Private Limited companies.

1.3 Problem Statement

The challenge addressed in this study is to connect three variables: Business strategy, HRM practices and employee outcomes. Prior literatures on these three variables linkages have neglected the following aspects that form the research gaps.

Lack of empirical research into the link between business strategy and HRM practices based on configuration theory:

The challenges such as rapid growth of firms, changes of consumer and business trends, level of competition, shortage of labor and skills, labor retention and other corresponding cost increase due to turnover, replacement and separation of employees

have forced firms to compete aggressively with one another to get their capable employees. These challenges require firms to continually evaluating their internal processes and capabilities to remain competitive. In order to increase the chances for successful implementation of strategy and ensure success for the firm, human resources must be considered in the strategy formulation and implementation processes (Jackson, Schuler & Rivero, 1989; Dyer, 1984b; Miles & Snow, 1984). However, anecdotal and empirical evidence show that strategic human resource management is not quite there yet, (David, 2005) and a recent survey found that only 56 percent of respondents reported that their HR departments had a strategic plan in place (Fegley, 2006).

There have been some strategic human-resource management (SHRM) models, attempted to explore the connection between business strategy and HRM practices, and these categories of integration or fit using best-fit or contingency approach. These include the life-cycle models (Kochan & Barocci, 1985), and the competitive advantage models of Miles and Snow (1978) and Schuler and Jackson (1987) based on the influential work of Porter (1985).

However, there was but little empirical evidence and few studies measure the typologies of business and HRM practices using the arguments of configuration theory. Most of the empirical data explained extensively on individual practices, but combinations of HRM practices were still few (e.g. Kersley et al., 2006; Guest et al., 2000). This theory held that business strategy and HRM carried out in an organization must align vertically and horizontally with one another. HRM practices fitted with one another horizontally and selected vertically with the competitive strategy adopted by the organization.

Lack of development of theory into matching of business strategy and HRM practices with employee outcomes:

The field of SHRM research has gradually recognized the importance of the role an employee played in linking the relationship of HRM practices to organizational performance. SHRM research has developed into two pathways that are the micro (with its focus on improving individual outcomes such as productivity, attitudes, well-being and retention) and macro (with its focus on company-level HR strategies, functions and practices) as agreed by several researchers (Ployhart, 2004; Wright & Boswell, 2002; Ostroff & Bowen, 2000).

However, few of empirical studies of integrating between macro and micro in HRM, have led to insufficient knowledge of whether, and how strategic HRM affects individual-level outcomes. Supporting this notion, reviews by Lepak, Liao, Chung and Harden (2006); and Wright and Boswell (2002) have noted the lack of multilevel research that integrates between macro concepts such as the high performance work system (HPWS) and more micros HRM-related processes and outcomes. This showed that empirical evidence in support of the mechanisms: the interaction of business strategy and HRM practices influences on employee attitudes and motivation was still minimal.

Lack of development of theory into effect of HRM practices on the linkage between strategy and employee performance:

Past studies conducted have proven the significant positive of relationship between HRM practices and firm performance (e.g., Ahmad & Schroeder, 2003; Wright, Gardner & Moynihan, 2003; Batt, 2002; Guthrie, 2001; Bae & Lawler, 2000; Hoque, 1999; Jayaram, Droge & Vickery, 1999). A basic premise of this research stream is that a