HR IN STRATEGIC DECISION-MAKING IN SELECTED PHILIPPINE ORGANIZATIONS

Vivien T. Supangco*

This study examined the factors explaining human resources (HR) involvement in strategic formulation and its consequences using three perspectives: resource-based view of the firm, institutional theory, and power. The results showed that HR involvement in strategy formulation did not necessarily translate into competitive advantage. However, if HR involvement in strategy formulation was an important goal of the HR function, by itself, organizational age was not a deterrent to its adoption. In addition, the centrality of HR also increased its level of involvement in strategy formulation. This study utilized the Philippine data of the CRANET survey on comparative human resource management.

I. INTRODUCTION

Strategic management has long been recognized as an important factor in gaining competitive advantage (Pearce, Freeman & Robinson, 1987). Inasmuch as the effective implementation of the strategic plan is dependent upon the organization’s human resources (HR) practices must prepare them for such. Given the recognition of the role of human resources in strategy implementation, much rethinking has been done on the role of HR not only in strategy implementation but also in strategy formulation (Tichy, Fombrum, & Devana, 1982; Schuler, 1990). The direction HR has taken then was toward becoming strategic. Wright and McMahen (1992) defined strategic human resource management as involving planned human resource policies and activities enabling the organization to achieve its goals. Moreover, strategic human resource management entails a long-term focus, a linkage between strategy and practices, the involvement of line managers in the HR policymaking process (Martell & Carroll, 1995a) and the implementation of HR programs and policies that are internally consistent (Baker, 1999). It also involves the use of planning and the fundamental regard of HR as a strategic resource (Hendry & Pettigrew, 1986). All these are based on the premise that such actions influence HR’s impact on the bottom line. But for HR to create value or contribute to the bottom line, it has to evolve into a business partner, actively participating in the strategic processes, and being part of the strategic management team (Golden & Ramanujam, 1985; Schuler & Jackson, 1987; Ulrich, 1997). Such involvement in the strategic processes positions HR to impact on corporate decision making.

This study addresses the following research questions: 1) Is there a relationship between HR involvement in strategy formulation and performance? 2) What factors explain HR involvement in strategy formulation?

This study is informed by concepts derived from the resource-based view of the firm, institutional theory, and power.

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II. HYPOTHESES DEVELOPMENT

This section discusses the hypotheses related to the above research questions.

2.1 HR Involvement in Strategy
Formulation and Performance

The resource-based view of the firm (Barney, 1991) argues that resources unique to the firm and are difficult to imitate can be sources of competitive advantage. Resources encompass physical, human, and organizational capital. According to Barney (1991) physical capital includes plants and equipment, location, and access to raw materials; human capital on the other hand includes training, experience, intelligence, and insights of individuals, and relationships among individuals; while organizational capital includes organizational structure, planning, coordinating and controlling systems, group relationships, and the organization’s relations with its environment. A firm gains competitive advantage when it is able to develop and implement value-enhancing strategies that are unique to the organization and where other organizations are unsuccessful at replicating the benefits gained from imitating such strategies. For a resource to be a source of sustained competitive advantage, it must be valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991).

Implicit in the resource-based view is the systems perspective (Becker & Gerhart, 1996). An HR system, as opposed to generic practices, becomes difficult to imitate because it is embedded in the organization’s overall system and tends to be developed or generated over time, serving particular organizational needs. Thus, they are specific to the organization (Monks & McMakin, 2001). In addition, the process of acquiring skills, abilities, and resources specific to the organization cannot be accelerated because it reflects the unique interactions of personalities and systems obtaining during an organization’s history (Barney, 1995). In a sense, an organization has a natural defense against imitation inasmuch as the competitor, to imitate strategies and implementation, must recreate the path taken by it (Collis & Montgomery, 1998). Several empirical results show the relationship between systems of HR practices and performance. In examining the relationship between systems of HR practices and various measures of performance, Huselid (1995) found support for negative association between high performance work systems (HPWS) and turnover, and positive association between the former and productivity and financial performance. Likewise, Arthur (1994) found higher productivity, lower turnover and scrap rates in companies employing commitment system compared to those employing control systems. Moreover, data from selected Philippine companies revealed that planning for the HR function, engaging in HR practices that promote long-term capability, and investing in management development are associated with higher perceived organizational performance (Supangco, 2001; Supangco, 2003).

The resource based-view is also consistent with contingency theory (Becker & Gerhart, 1996). When HR practices are aligned with strategy, they become idiosyncratic to the organization. Although researchers found insignificant to modest support for internal fit or complementarities of HR practices (Huselid, 1995; Delaney & Huselid, 1996) the contingency perspective found more support in other studies. For example, Youndt, Snell, Dean, and Lepak (1996) found significant interaction effects between human resource enhancing HR systems and quality manufacturing strategy. While administrative HR system enhanced employee productivity in firms pursuing cost strategy and it enhanced customer
alignment in firms pursuing delivery-flexibility strategy. Moreover, human capital was shown to moderate the relationship between strategy and performance of professional service firms (Hitt, Bierman, Shimizu & Kocher, 2001).

The resource-based view implies that strategies cannot be implemented universally; rather, they are contingent on the organization's human resources that implement them (Wright & McMahan, 1994). HR's involvement in strategy formulation enhances the alignment of HR practices with the organization's strategy (Buyens & De Vos, 2001). In a related vein, Lengnick-Hall and Lengnick-Hall (1998) advanced the importance of integrating HR with strategic choices. Inasmuch as firm resources are considered in goal setting and subsequent implementation, there is a greater chance of arriving at broader range of solutions to complex problems.

Given the above arguments, involvement of the HR function in strategy formulation is a socially complex process, embedded in an organization's social structure, which constrains imitation. The process enhances the creation of strategies that are unique to the firm. Thus from the resource-based perspective, it is hypothesized that:

H1: HR involvement in strategy formulation is positively associated with performance.

2.2 Factors Associated with HR Involvement in Strategy Formulation

This section develops hypotheses explaining HR involvement in strategy formulation using perspectives from institutional theory and power.

It has been argued that for HR to create value and contribute to the bottom line, it has to evolve into a business partner, actively participate in the strategic processes, and be part of the strategic management team (Golden & Ramanujam, 1985; Schuler & Jackson, 1987; Ulrich, 1997). While the theoretical bases of involving HR in the strategic formulation process of organizations are appealing, empirical studies yield mixed results. To understand further HR involvement in strategic formulation, this study looks into the factors that are associated with it.

Institutional theory sees organizations as operating in a network of social relationships. When an organization is accepted by actors in its network, it gains legitimacy (Di Maggio & Powell, 1983). Legitimacy increases an organization's chances for survival. Isomorphism, organizations resembling each other, increases legitimacy (Di Maggio & Powell, 1983; Deephouse, 1996). Thus, organizations engage in actions that increase legitimacy irrespective of its efficiency considerations. Institutional pressures may present themselves as coercive, mimetic, and normative forces. Coercive forces, such as government regulations or cultural expectations, come from other organizations while mimetic pressures arise from uncertainty. In extremely uncertain conditions or when ends/means relationship is ambiguous, organizations often follow practices of successful organizations or practices deemed effective. On the other hand, normative pressures come from professionalism, training received from universities, or the diffusion of practices through professional networks (Di Maggio & Powell, 1983). Thus, some HR practices are adopted not necessarily for reasons of efficiency or impact on the bottom line (Martell & Carroll, 1995b). Indeed, empirical results show weak to moderate support for the positive relationship between HR involvement in strategy formulation and various measures of performance (Martell & Carroll, 1995a; Bennett, Ketchen, & Schultz, 1998). According to Huselid, Jackson, and Schuler (1997) the moderate correlation between perceived strategic and
HRM effectiveness indicates that technical HR practices have been institutionalized and, as such, have become ineffective in gaining competitive advantage. In an effort to gain acceptance in its social network, organizations engage in actions that enhance legitimacy. Institutional pressures may present themselves as coercive, mimetic, and normative forces. However, Oliver (1991) advanced that pressures to conform to environmental demands depend on the characteristics of these pressures including cause, constituents, control, and context. For example, large organizations attract the attention of important environmental constituencies such as the media, government, and other actors in the environment. Such attention increases pressure on the organization to engage in actions that enhances legitimacy. To the extent that involvement of HR in strategy formulation enhances legitimacy, it is hypothesized that:

H2: Organizational size is positively associated with HR involvement in strategy formulation.

As opposed to organizational inertia, the fluidity of aging hypothesis argues that older organizations are more flexible because the long-standing relationship they have within the network should provide them better access to information that enables change that is considered to enhance legitimacy (Burudos, 2001; Zajac & Kraatz, 1993) To the extent that HR involvement in strategy formulation enhances legitimacy, it is hypothesized that:

H3: Organizational age is positively related to HR involvement in strategy formulation.

Political theorists argue that organizations consist of coalitions, with different interests, which compete for dominance (Pfeffer, 1981). Power may come from one’s position or may be derived from mere membership of units that provide the organization with resources that are highly valuable (Pfeffer, 1981) or that reduce uncertainty (Hinnings, Hickson, Pennings, Schenck, 1974). However, centrality of position may not perfectly correspond to hierarchical position. When HR heads have roles in the board, it enhances its centrality. Thus, it is hypothesized that:

H4: HR involvement in strategy formulation is positively associated with the centrality of the HR function.

III. METHODS

This study is based on the Philippine data of the 6th round of the Cranfield Network (CRANET) survey on comparative human resource management conducted in 2004. CRANET is a research consortium of 34 countries, 24 of which are in Europe. The data are based on a convenience sample of 56 organizations in Metro Manila. A structured questionnaire developed by CRANET was sent through email to heads of human resource companies listed in the 2004 Personnel Management Association of the Philippines. This was complemented by distributing the questionnaire to MBA students of the University of the Philippines for accomplishment by the head of the human resource management department of their respective organizations. A total of 730 questionnaires were distributed to heads of HR of selected organizations in Metro Manila.
To determine whether or not there exists a systematic bias in the sample, the confidence intervals were computed for the proportion of managers and the proportion of unionized organizations in the sample. The PMAP data were compared to this interval. The procedure indicates that the respective proportions of the PMAP data fall within the confidence interval of the proportion of managers and the proportion of unionized organizations in the sample, thus providing confidence in the sample (Appendix A).

Six variables were used in this study, namely: performance, HR involvement in strategy formulation, organizational size, organizational age, centrality of the HR function, and the degree to which the organization has a formal strategic planning environment.

Performance: Available data on performance in the survey were on perceived organizational performance. Performance was measured as the factor scores of four items: service quality, level of productivity, profitability, and rate of innovation. The Cronbach alpha of these items is 0.7577. This is the dependent variable in the first hypothesis.

HR Involvement in Strategy Formulation: This was measured as the stage at which HR is consulted in the development of corporate strategy. The range was “consulted from the outset to not consulted.” The scoring was reversed to reflect the highest score for consulted from the outset. This variable was used as the dependent variable in the last three hypotheses.

Organizational Size: The natural logarithm of total employment was used as measure of organizational size. This was used as control variable in the first hypothesis, and independent variable in the second hypothesis.

Organizational Age: The natural logarithm of age was used to measure organizational age. This was used as control variable in the first hypothesis and independent variable in the third hypothesis.

Centrality of the HR Function: This is measured in terms of the involvement of HR in board activities, which is a binary variable. The variable is scored 1 when the head of HR has a place in the main board or its equivalent, and scored zero otherwise. This was used as an independent variable in the fourth hypothesis.

Formal Strategic Planning Environment: This is measured by an index, which reflects the degree to which the organization has formal elements of a strategic plan: mission statement, values statement, business strategy, and HR strategy. The scoring was reversed to reflect higher number for written elements of a strategic plan. An index was computed by getting the sum of the scores of these items. A higher score reflects a more formal strategic planning environment. This was used as control variable in the last three hypotheses.

IV. RESULTS AND DISCUSSION

The sample consisted of 56 companies operating in Metro Manila, Philippines. On the average, the organizations in the sample had been in existence for the past 32.59 years and employed an average of 1,931.78 employees. Some 40.4 percent of the organizations (47 organizations responded to this particular item in the questionnaire) had its HR head involved in board activities and 44.7 percent of the sample organizations involved (48 organizations responded to the item in the questionnaire) HR at the outset of the strategic formulation process. Table 1 shows the means of variables used in this study while Table 2 shows the correlation of variables.
Table 1
Means and Standard Deviations of Selected Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Number of Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>-1.7E-16</td>
<td>0.8926</td>
<td>44</td>
</tr>
<tr>
<td>HR Involvement in Strategy Formulation</td>
<td>3.19</td>
<td>0.8757</td>
<td>47</td>
</tr>
<tr>
<td>Organizational Size</td>
<td>1931.78</td>
<td>3282.56</td>
<td>41</td>
</tr>
<tr>
<td>Organizational Age</td>
<td>32.59</td>
<td>30.43</td>
<td>49</td>
</tr>
<tr>
<td>Formal Strategic Planning Environment</td>
<td>11.15</td>
<td>1.79</td>
<td>47</td>
</tr>
</tbody>
</table>

Table 2
Correlation Matrix of Selected Variables

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performance</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. HR Involvement in</td>
<td>0.071</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Formulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Organizational Size (ln)</td>
<td>0.449*</td>
<td>0.239</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Organizational Age (ln)</td>
<td>-0.177</td>
<td>0.211</td>
<td>0.214</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>5. Formal Strategic</td>
<td>0.316*</td>
<td>0.362*</td>
<td>0.443**</td>
<td>-0.001</td>
<td>1.0</td>
</tr>
<tr>
<td>Planning Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p<0.10 **p<0.05 ***p<0.01

Table 3 presents results of regression analyses. Model 1 shows that HR involvement in strategy formulation was not significantly associated with the measure of perceived organizational performance. Only the control variable size was significant with p<0.05. The model was marginally significant with p<0.10, and 28.6 percent of the variation in performance was explained by the model.

Table 3
Results of Regression Analyses

<table>
<thead>
<tr>
<th></th>
<th>Model 1: Performance</th>
<th>Model 2: HR Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Involvement in Strategy Formulation</td>
<td>8.7E-03</td>
<td>-8.4E-02</td>
</tr>
<tr>
<td>Organizational Size (ln)</td>
<td>0.247*</td>
<td>-0.631**</td>
</tr>
<tr>
<td>Organizational Age (ln)</td>
<td>-0.237</td>
<td>0.513*</td>
</tr>
<tr>
<td>Centrality of HR Function</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal Strategic Planning Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-1.11</td>
<td>0.39</td>
</tr>
<tr>
<td>R²</td>
<td>0.286</td>
<td>0.549</td>
</tr>
<tr>
<td>F</td>
<td>2.80*</td>
<td>5.478**</td>
</tr>
<tr>
<td>Kolmogrov-Smirnov Z</td>
<td>0.837</td>
<td>0.678</td>
</tr>
</tbody>
</table>

*p<0.10 **p<0.05 ***p<0.01
The result does not support hypothesis 1 which is based on the resource-based view of the firm that predicted a positive relationship between HR involvement in strategy formulation and performance. The result is consistent with the generally weak support of the relationship between HR involvement and various measures of organizational performance reported by Martell and Carroll (1995a); Bennett, Ketchen, and Schultz (1998); and Wright, McMahan, McCormick, and Sherman (1998).

From the resource-based view, the results imply that the practice of involving HR in strategy formulation is not enough to gain competitive advantage. There is need to reexamine the process of involving HR in strategic formulation so that its potential to create value and competitive advantage for the organization is realized. There is no doubt that the process is valuable. However, it may not be unique at this point in time and may be substitutable. Still the potential for it to be source of competitive advantage may be realized when organizations are able to harness their capabilities given their complex social systems so that the process itself becomes unique to the organization, embedded in their systems, thus making imitation difficult.

Model 2 explains the factors associated with HR involvement in strategy formulation. Results show that HR involvement in strategy formulation is positively associated with the age of the organization (p<.01) and the centrality of the HR function (p<.10). The model was significant at p<.01, and 54.9 percent of the variation in human resource involvement was explained by the model.

While the result does not support hypothesis 2, which posits for a positive relationship between organizational size and involvement of HR in strategy formulation, it supports hypotheses 3 and 4. The positive relationship between age of the organization and HR involvement in strategy formulation is consistent with the fluidity of aging hypothesis (Burdos, 2001; Zajac & Kraatz, 1993). To the extent that older organizations have developed networks that are sources of information important in understanding HR involvement in strategy formulation, there is a tendency for organizations to engage in such practice as the organization age increases. Moreover, to the extent that older organizations possess managerial experience that enables adoption of the practice, involvement of HR in strategy formulation increases as the organizational age increases. The implication of the findings is that older companies in the sample have exhibited capacity to adapt to change.

The result also shows that the centrality of the HR function is associated with HR involvement in strategic formulation. Indeed centrality of position impacts on important outcomes. When HR is involved in board activities, it has access to and control of valuable resources including information (Ibarra, 1993). In this case, centrality of position influenced involvement in strategy formulation.

V. CONCLUSION AND DIRECTIONS FOR FUTURE RESEARCH

The imperative of HR to be involved in strategy formulation has been advanced in the literature. This study has given us insights into HR involvement in strategic decision-making in selected organizations in the Philippines.

The results of the study have clearly shown that HR involvement in strategy formulation may be adopted for reasons other than creating value for the organization. In fact, the results show that HR involvement in strategy formulation does not necessarily translate into
competitive advantage. This finding suggests that much more is needed in order to realize the potentials that HR involvement in strategy formulation hold. The null result from the test of the relationship between HR involvement in strategy formulation and performance points to the need to discover more relevant outcomes in which HR involvement can be assessed. On the other hand, the result show that if HR involvement in strategy formulation is an important goal by itself, it is indeed instructive to position HR to be involved in top-level decision-making, and such may be employed by organizations regardless of size. While the organization may not be able to manipulate its age, it is interesting to note that organizational age is not a deterrent to the adoption of the practice of involving HR in strategy formulation.

Because the study is based on a convenience sample of organizations, results of this study may be generalizable only to organizations that participated in the survey. In addition this study is limited by what is available in the CRANET data set. To understand the factors explaining HR involvement in strategic formulation and its consequences, some measures need to be refined. For example, accounting and economic performance measure may be gathered. The normative pressure on the organization may also be explored by looking into the organizations’ membership in professional or industry associations. It may also be instructive to determine the degree to which HR involvement in strategy formulation has influenced investment in human resources. This may be the more relevant outcome of such practice.

REFERENCES


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Appendix A

Confidence Interval of Percentage Unionized and Percentage Managers

<table>
<thead>
<tr>
<th>Variable</th>
<th>Percentage (Sample)</th>
<th>Percentage (Other)</th>
<th>Lower Limit</th>
<th>Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Unionized (Sample-PMAP)</td>
<td>0.29</td>
<td>0.27</td>
<td>0.16</td>
<td>0.42</td>
</tr>
<tr>
<td>Percentage Managers (Sample-PMAP)</td>
<td>0.17</td>
<td>0.16</td>
<td>0.07</td>
<td>0.28</td>
</tr>
</tbody>
</table>