

THE DEVELOPMENT OF THE HUMAN RESOURCE FUNCTION TOWARDS A STRATEGIC ROLE – FOUR ESSAYS IN HUMAN RESOURCE MANAGEMENT FOCUSING ON STRATEGIC HUMAN RESOURCE MANAGEMENT INVOLVEMENT, HUMAN RESOURCE OUTSOURCING AND HUMAN RESOURCES MANGEMENT AND THE RELATIONSHIP WITH ORGANIZATIONAL PERFORMANCE

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Synopses

The following manuscript contains four essays on the topic of human resource management (HRM) which is primarily concerned with the form and the development of the human resource (HR) function towards a more strategic role. Over the past two decades, the HR function has shifted away from its traditional administrative role and toward a more value creating and strategic role (Brewster 2007, Lawler and Boudreau 2009, Gooderham and Nordhaug 2011). At its core, this transformation is based on the growing recognition of the HR function and its activities as a source of competitive advantage (e.g., Boxall 1996, Brewster 2007, Brewster, Wood et al. 2008, Beechler and Woodward 2009). In this regard, the professionalization of the HR function is highly related to an improved alignment of the HR function with an organization's business model and its involvement in the decision-making processes within the organization (Lawler and Mohrman 2000, Wright, Snell et al. 2003, Teo and Rodwell 2007). Thus, the four essays share a focus on the strategic direction of the HR function and its relationship with organizational behavior and performance. In addition, the institutional environment and its possible interdependences with the HR function are considered in these four essays.

First, the essay, **‘HR Integration, HR Strategy, and HR Partnership – Comparing the ‘Strategic Partner’ between the USA and Germany’**, examines the contribution of strategic HR integration in strategic business planning processes and compares two different countries with heterogonous national institutional environments. It is known that the strategic involvement of the HR function in managerial decision-making differs across organizations and national institutional settings (Scullion and Starkey 2000, Becker and Huselid 2006). Following Boudreau and Lawler (2014), the heterogeneous and relatively slow progress of strategic HR integration is driven by the bureaucratic and cost-savings approach traditionally adopted by management, whereas organizations appear to benefit most if they pursue high-involvement

approaches. In this regard, the involvement of the HR function in a business' planning process represents a first step toward a more high-involvement approach on the part of management. Thus, there is a need to examine whether earlier HR integration allows the HR function to develop the conditions and objectives stipulated in implemented HR practices and procedures through an HR strategy. As differences between institutional environments might influence the relationship between the HR function and its related outcomes (employee turnover is used as meaningful indicator), this study compares the strategic involvement of the HR function between Germany and the USA (Brewster 2007, Brewster, Wood et al. 2008).

The research framework employed is based on the resource-based view (Barney 1991, Barney 1995) and the new institutionalism (Meyer and Rowan 1977, DiMaggio and Powell 1991). The data for the regression analysis and interaction terms are based on a sample of 849 responses from the 2009 Cranet survey.

The second manuscript, **'Outsourcing and Excellence of Core HR Practices: Comparing institutional mechanisms among market economies**, draws on the boundary decision between outsourcing and excellence of two HR practices among large organizations in liberal market economies (LMEs) and coordinated market economies (CMEs): recruitment & selection (R&S) and training & development (T&D). Both HR practices are mainly considered in the literature as core HR activities (Dasborough and Sue-Chan 2002, Cooke, Shen et al. 2005, Ordanini and Silvestri 2008, Reichel and Lazarova 2013). However, the results of previous research indicate increased HRO in nearly all aspects of the HR function (Klaas, McClendon et al. 1999, Cooke, Shen et al. 2005, Shen 2005, Galanaki and Papalexandris 2007, Wehner, Giardini et al. 2012).

We used the resource-based view (Wernerfelt 1984, Barney 1991) as theoretical framework which is appropriate for explaining the boundary decision of outsourcing core and non-core HR activities (e.g., Klaas, McClendon et al. 2001, Cooke, Shen et al. 2005, Klaas 2008). But

among markets, institutional theory (Meyer and Rowan 1977, DiMaggio and Powell 1991) might be more suitable able to explain differences in the use of outsourcing among institutional environments (Cooke, Shen et al. 2005). In this regard, the mechanism of the institutional environment and the impact of national differences in the outsourcing of core HR activities is still limited (Dasborough and Sue-Chan 2002, Klaas 2008).

Therefore, the study contributes to the existing research in two ways; we used the rationale of institutional theory within the context of HR outsourcing to explain when and why organizations make *and* buy core HR activities simultaneously. Second, we investigate to influence of the institutional environment on HR outsourcing and HR excellence by comparing liberal market economies (LMEs) and coordinated market economics (CMEs; Hall and Soskice 2001). Derived, we show that differences in the use of HR outsourcing and HR excellence are due to coercive and mimetic forces.

To test our predictions, we used Cranet data from 2014-2016, with data from eight countries from a total of 1,948 organizations and divided the data into LMEs and CMEs with an institutional index obtained from the Heritage Foundation. For the analysis of our hypotheses, we used OLS regression and standard SPSS software.

The third essay, **‘The impact of HR outsourcing and strategic HR integration on the HR-to-employee ratio: An empirical evaluation of the HR function over the last decade**, is based on the notion that HRO and the evolution of the HR function towards a more strategic role are compliments rather than substitutes. A common subject of discussion in research and practice is the extent to which HRO affects the role of the HR function and its relationship with strategic HR integration (Cooke, Shen et al. 2005, Ulrich, Younger et al. 2008, Reichel and Lazarova 2013). The discussion is highly varied, with some authors understanding HRO as compliment of a more strategic HR function (Ulrich and Brockbank 2005) and others arguing that HRO reduces the size of the internal HR staff and increases workload, de-motivation

and stress (Cooke, Shen et al. 2005, Shen 2005, Belcourt 2006). To provide an empirical contribution to this discussion, this study analyzes Cranet data from three large evaluations in 14 European countries and compares results obtained from the 2000, 2005 and 2010 survey waves. The dataset was extended by incorporating macroeconomic data from the European Union. We use a multilevel regression design to test our hypotheses, which are based on the resource-based view. On the one hand, we analyze strategic HR integration across the three waves and the effect that HRO has on this transformation. On the other hand, we verify the widespread assumption that HRO reduces the internal HR employment and propose the HR-to-employee ratio as a predictor of strategic HR integration.

The fourth essay, **‘Strategic Human Resource Management and its impact on Performance – do Chinese organizations adopt appropriate HRM policies?’** reviews and reappraises existing empirical studies in the field of HRM and organizational performance. Empirical evidence obtained from the USA and Europe indicates that HRM is able to have a positive impact on organizational performance (e.g., Combs, Liu et al. 2006, Gooderham, Parry et al. 2008, Lengnick-Hall, Lengnick-Hall et al. 2009, Paauwe 2009, Buller and McEvoy 2012). It is widely accepted that HRM practices and procedures that have proven successful in the USA are adopted elsewhere (e.g., the HR business partner architecture were largely adopted by European organizations (Brewster 2007)). By comparing previous HR research, we note substantial differences in the outcomes of adopting HRM practices from the USA in European organizations (Björkman and Gooderham 2006, Björkman, Fey et al. 2007, Peretz 2012). The institutional environment is considered as potential framework for explaining different performance outcomes following the implementation of comparable HR management practices (e.g., Brewster, Wood et al. 2008, Brewster, Wood et al. 2013, Vaiman and Brewster 2014). In this regard, while the institutional environments of the USA and Europe are transparent and examinable, this is not the case for the Chinese institutional environment (Björkman and Xiucheng 2002). It is obvious that Chinese organizations, as their European counterparts have

previously, adopt HRM practices and procedures from US organizations (Björkman, Smale et al. 2008). For several years, Chinese studies have been published that investigate the relationship between HRM and performance. Thus, there is an opportunity to compare Chinese to Western HR functions and examine the effectiveness of strategic HRM by evaluating the existing research. Therefore, we summarize reputable and recognized empirical evidence regarding the relationship between HRM and performance for the three regional clusters of the USA, Europe and China. The conclusion is developed based on institutional theory and should explain the summarized results.

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Doctoral Thesis Summery

The overarching objective of these four essays is to contribute new insights to the field of HRM research. Our research interest is the development of the HR function towards a more strategic and value creating role. Additionally, all four papers consider the possible influence of the institutional environment on the HR function and its relationship with organizational behavior.

The manuscript **‘HR Integration, HR Strategy, and HR Partnership – Comparing the ‘Strategic Partner’ between the USA and Germany’** analyzes the impact of strategic HR involvement on employee turnover with HR strategy as a contextual factor. Furthermore, by linking the new institutionalism (DiMaggio & Powell, 1991) and examining two legally and culturally different countries, the study contributes to the ongoing discussion on whether and how strategic HR involvement in business decisions and strategy development is beneficial for organizations in different institutional environments.

First, the results indicate that the existence of an HR strategy increases the likelihood that the HR function will be integrated into the business strategy process. This is in line with previous research (Guest, 1997; Teo & Rodwell, 2007; Thompson, 2007) and corroborates previous findings that the integration of the HR function into the development of the business strategy is the basis for developing an appropriate HR strategy (Bird & Beechler, 1995; Wright, Snell, & Jacobsen, 2003).

Second, the existence of an HR partnership directly reduces employee turnover if an organization has an HR strategy. This confirms the notion that an alignment of the HR function with line management via an HR strategy encourages HR specialists to fulfill their roles as strategic partners. This is an important contribution to existing knowledge because, thus far, research agrees that HR practices such as career opportunities for young professionals, work

satisfaction for middle-aged employees, and job security for late-career employees have strong effects on employee turnover (Armstrong, 2012).

Third, the study reveals country differences in the relationship between the existence of an HR partnership and employee turnover. The results indicate that, in the USA, the involvement of HR specialists in HR-related boundary decisions leads to higher employee turnover. Two important factors might explain these findings, which are contrary to our hypotheses. First, there are relevant institutional and cultural differences between the USA and Germany (Gooderham & Nordhaug, 2011; Peretz & Fried, 2012; Vaiman & Brewster, 2014). Therefore, it is conceivable that US organizations might use their HR function to pursue an approach based on relatively high employee turnover (Velasquez & Velazquez, 2002) to maintain competition among employees. This explains the increasing employee turnover that has resulted from a higher degree of HR involvement and is partially in line with previous research stating that a higher employee turnover rate might be useful (Glebbeeck & Bax, 2004). Second, the Cranet survey was administered during the 2008/2009 financial crisis. Organizations in the USA faced incentives to reduce employees in the short term to save costs, but they were able to fill job vacancies easily in the year after the crisis. In Germany, organizations reacted with part-time work and employee pay cuts instead of reducing the number of employees because the labor market had shifted to a buyer's market, especially for well-educated engineers (Dewettinck & Remue, 2011). Therefore, it would be desirable for further research to examine the aspects of strategic HR involvement in greater detail, especially through the use of additional dependent variables. In addition, the use of HR strategy as moderator instead of as predictor variable appears to be a fruitful avenue for empirical investigations in the field of HRM.

The objective of the second manuscript, **‘Outsourcing and Excellence of Core HR Practices: Comparing institutional mechanisms among market economies**, was to examine HR

excellence and HR outsourcing among core HR activities due to differences in the institutional environment. The study contributes to a advanced understanding of the influence of two market economies (LME, and CME), on the development professionalization, and outsourcing of R&S and T&D, by analysing CRANET data from 2014-2016 from eight countries.

First, the results support in general the consideration of the resource-based view that firm-specific investments into human capital indicate the value and uniqueness of the human resources to gain competitive advantages (Barney, 1991; Wernerfelt, 1984). The results show, the higher human capital investment was negatively associated with R&S outsourcing, independent of the institutional environment, which support the resource based view and the prediction that a higher asset investments (i.e., human capital investments) leads to lower outsourcing of specific activities. Counterintuitive, our results show a positive relationship between R&S outsourcing and the HR excellence of R&S, which cannot be explained by the resource-based view. The simultaneous increase might be an expression of the importance of R&S activities for organizations, which would confirm the idea that organizations make *and* buy HR activities, which is line with previous authors (e.g., Matiaske & Kabst, 2002; Parmigiani, 2007). Therefore, it is convincible that HR outsourcing and the HR excellence of the same HR practices are rather complements than substitutes. Organizations which combine R&S outsourcing and R&S excellence simultaneously might be driven by the mechanism of mimicry and legitimacy (DiMaggio & Powell, 1991; Meyer & Rowan, 1977) and the rationale of concurrent sourcing (e.g., Parmigiani, 2007).

Second, the results confirmed robust influence of the institutional environment on both excellences of R&S and T&D as well as R&S outsourcing. Based on institutional theory (DiMaggio & Powell, 1991; Meyer & Rowan, 1977), we consider that the institutional environment leads to isomorphism among organizations within a specific market economy. As confirmation our results show two remarkable differences between LMEs, and CMEs. The

results for LMEs, which characterized by rather liberal labour markets (Farndale, Brewster, Ligthart, & Poutsma, 2017; Velasquez & Velazquez, 2002) indicate a positive influence of the LME environment on the excellence of R&S and a negative influence on the excellence of T&D and R&S outsourcing. Organizations in LMEs have to operate replacement and recruitment decisions frequently, which requires a higher excellence in R&S, a stronger firm-specific customization of R&S services, and less excellence in T&D. Conversely, CME-based organizations are described as rather ‘soft’ in people management (Goergen, Brewster, & Wood, 2013), which is reflected in the usage of T&D to compensate for low individual performance instead of replacing the position holder. Furthermore organisations in CMEs might consider T&D as more important for organizational success because they cannot replace their employees as easily as their counterparts in LMEs due to more restrictive labour laws.

Finally the combination of the resource-based view and institutional theory in this study contribute to the ongoing discussion in the field by suggesting that HR outsourcing and HR excellence are not mutually exclusive and can be complements rather than substitutes. This combined theoretical framework is able to explain that companies simultaneously engage in outsourcing and increase their excellence of core HR activities at the same time.

The third part of this manuscript, **‘The impact of HR outsourcing and strategic HR integration on the HR-to-employee ratio: An empirical evaluation of the HR function over the last decade’**, contributes to the HRM literature on the relationship between HRO and the widespread assumption that it decreases internal HR staff; this article uses the HR-to-employee ratio as a predictor of strategic HR integration. The study analyzed non-panel data from 14 European Union countries over a ten-year period to contribute to the ongoing debate on whether and how HRO affects the transition of HR function to a more strategic role.

First, the main contribution of the article is the finding of a positive relationship between the general use of HRO and the HR-to-employee ratio. The results of all three waves of the sur-

vey considered allow us to conclude that organizations that engage in HRO operate with a relatively better staffed HR function than do to organizations that do not. This positive relationship results support the prediction that HRO and the HR-to-employee ratio can be complements. We recognize that our calculations are based on European countries, while previous research focuses on the USA. The European countries considered in our analysis are characterized by rigid labor laws, greater union influence and a more restricted labor market, compared to the USA. (Brewster, 2007; Peretz, 2012; Vaiman & Brewster, 2014). This could explain the reluctance of European organizations to downsize HR staff while simultaneously engaging in HRO. The second reason for this positive relationship is based on the professionalization of the HR function, as organizations borrow the HR business partner concept from their US counterparts (Gooderham & Nordhaug, 2011). Following Ulrich's (2008) intuition that HRO of administrative and non-core HR tasks provides, on the one hand, more time and resources for the HR function, while on the other hand, HRO generates new challenges and responsibilities. It is plausible that organizations professionalizing the HR function towards a more strategic role increase the HR-to-employee ratio and their HRO activities. In addition, the use of HRO requires communication to provide data and control and monitor HR agencies (Belcourt, 2006), which justifies increasing HR staff.

The second remarkable result is the positive relationship between the HR-to-employee ratio (as the dependent variable) and strategic HR involvement. The observations from the survey waves collected from 2000 to 2010 allow us to conclude that relatively well staffed HR functions are better integrated in the processes determining the strategic direction of their organizations. One simple explanation for this result is that HR functions have more resources, competences and, at a minimum, time to become involved in the strategic direction of organizations.

The third main finding from our results is the positive link between the use of HRO and SHRM integration, which is evident in each of the three survey waves. This finding supports Ulrich's (2008) approach that the use of HRO enables the HR function to focus on more strategic matters. Similarly, the results confirm previous research predicting that organizations tend to increase SHRM integration by engaging in HRO (Belcourt, 2006; Cooke, Shen, & McBride, 2005; Shen, 2005).

Nevertheless, the use of the HR-to-employee ratio as a predictor or as moderator appears to be a fruitful direction for further research, as it is convincible that the ratio has a relationship with several HR indicators. Moreover, the use of culturally driven theoretical frameworks such as Hofstede's Power to distance concept [(Hofstede, 1991) by using Globe-data] appears to be a particularly interesting research avenue regarding the HR-to-employee ratio.

The objective of the forth essay '**Strategic Human Resource Management and its impact on performance – do Chinese Organizations adopt appropriate HRM practices?**', was to summarize the HR literature on HRM and its impact on organizational performance to appraise the HR function in China. Gathering and comparing recognized and representative empirical publications conducted in the USA, Europe and China allows us to offer the following three conclusions.

First, as European organizations adopted the HRM concept of a more strategic role for HR function from US organizations, the review suggests that Chinese organizations are now imitating Western HRM. It is conceivable that the application of HR practices in China is primarily driven by the mechanism of mimetic isomorphism. Previous research by Björkman, Smale, Sumelius, Suutari, and Lu (2008) and Wei and Lau (2008) provides empirical support for this conclusion.

Second, all three geographical clusters present robust empirical evidence that the HR function is able to improve the organizational performance, directly. Notably, the most cited and recognized empirical studies summarized in this manuscript indicate that there is a series of HR practices and procedures that appears particularly successful in increasing organizational performance. Training and development or training and career development bundles have been widely used as independent variables and consistently exhibit a positive relationship with organizational performance and HR outcomes. Those results fully support the human capital perspective (G. S. Becker, 1962; Lepak & Snell, 1999, 2002). The second set of HR procedures that exhibit a positive relationship with organizational performance in all three clusters comprises HR processes that evaluate performance and link it with salaries. The third HR configuration that is successful in influencing the organizational performance in all three clusters is to strategically embed the HR function within the business. While performance evaluation systems ensure that the workforce pursues business objectives (Armstrong & Baron, 2000), strategic HR involvement should translate the business strategy into an appropriate HR configuration (e.g., Allen & Wright, 2006; B. E. Becker & Huselid, 2006; Boxall & Purcell, 2003). Nevertheless, it is not possible to offer a final, universal recommendation for the best performing configuration of the HR function.

At a minimum, in response to the title of the manuscript and the question, ‘do Chinese organizations adopt appropriate HRM policies?’, the general answer is yes. Given the mechanism of mimetic isomorphism, it can be assumed that Chinese organizations adopt the most efficient HR configurations from Western organizations. The summarized studies also support the prediction that subsidiaries of Western multinational organizations accelerate the development of the Chinese HR functions.

In comparison to empirical research on HRM and its relationship with performance in Europe and the USA, the empirical HR literature on China is rather new and has been restricted to a

few metropolitan regions and small sample sizes. It would be desirable to expand this research field with additional studies and data from China to understand the development of Chinese HRM.

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