The Same Strategic HRM Issues Predict Performance In Both For-Profit and Non-Profit Organizations In A Key Knowledge-Intensive Industry

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ABSTRACT

This paper examines the adoption of strategic human resource management (HRM) by for-profit and non-profit knowledge-intensive health services (HS) organisations in Australia. Survey data collected from senior executives is used to test the relationships between a strategic HRM model and firm performance. Path analysis found that, irrespective of whether for-profit or non-profit, adopting strategic HRM could increase organisational performance. Strategic HRM could be achieved through the cultivation of an external orientation to customers' demands and an internal orientation highlighting commitment to employees. Public and non-profit organisations in the HS industry facing or undergoing health sector reform need to be aware of both of these orientations in order to adopt strategic HRM and improve their performance.

Key words: Public and nonprofit sector, Strategic HRM, Human capital
Health services and professional medical services are a key knowledge-based industry in the public and nonprofit sector. These medical organisations employ individuals who are highly skilled, and produce, distribute and use knowledge and information as their source of competitive advantage (OECD, 1996). The Australian health industry is complex, with private, public and non-public sector provision of health services and over the last decade there has been an increase in the corporatization of healthcare services, including private health care services (AIHW 2002).

Health services (HS) organisations in the for-profit and nonprofit sector are undergoing widespread transformations (Russell, Bennett, & Mills, 1999). The HS organisations of the future will have little resemblance to their predecessors, due to the reform of health care policies in countries such as Australia, the UK and the USA (Boldy, Jain, & Chen, 1996).

One of the key means of managing firm performance in knowledge-based firms is through using strategic HRM (e.g., Wright, Dunford & Snell, 2001). HRM issues in the health services sector have often been acknowledged as important (Barnett et al., 1996; Truss, 2003) and HRM practices are also the primary mechanism for developing human capital (Becker, 1993).

Therefore, the main aim of the current study is to address these gaps in the literature by examining the relationships between the nature and orientation of the HRM systems and performance, for both for-profit and non-profit organizations in the Australian health services industry and thereby increase our understanding of the nature of HRM in the public and non-profit sector.

KNOWLEDGE WORKERS AND STRATEGIC HRM IN HEALTH SERVICE FIRMS

Strategic HRM and Organisational Orientation

The adoption of new public management practices as part of public sector reform has a number of organisational consequences such as a renewed emphasis on accountability in public policy programs (Ryan, 1993) and a creation of an entrepreneurial spirit among managers (Aulich, Halligan, & Nutley, 2001), often referred to as new public management, or NPM (Russell, et al., 1999). This has resulted in a shift in organisational orientation from one that is inwardly focused to one that focuses on the external environment (Parker & Bradley, 2000).

**External Orientation.** Within knowledge management, the relationships the organisation has with customers and suppliers, as well as its' brand, are facets of the organisation's externally-oriented intangible assets (Sveiby, 1997). The level of the customer's requirements for product performance and the sophistication of their technical standards and specifications is a key stimulus for the development of intangible assets. When customers become more demanding they prompt firms to learn specific customer needs and develop products of superior value (Wheelwright & Clark, 1992). That is, one of the core elements for building intangible assets is the degree of customer demandingness (Li & Calantone, 1998). Subsequently,
organisations that have customers of varying degrees of demandingness could develop differing levels of knowledge between the organisations.

From a HRM perspective, strategic HRM should be considered as a service function (Schneider, 1994) and subsequently would reflect an external orientation. For example, the HRM function has also been urged to become customer-oriented by involving customers in its systems (Ulrich, 1992).

Conversely, having a market orientation has been found to have an influence on the foundation of organisational learning (Slater & Narver, 1995), essential for developing a strategic HRM orientation. Ewing, Ramaseshan and Caruana (1999) found that organisations that possess a higher level of market orientation have a more effective HRM function. Hence, it is expected that the more customer demandingness possessed by an organisation, the more likely it is the organisation is going to adopt strategic HRM as a means of enhancing organisational effectiveness.

Hypothesis 1: Customer demandingness is positively related to the adoption of strategic HRM in health services firms.

**Internal orientation.** The know-how of employees and the culture of the firm, among other factors, are critical in ensuring that the intangible resources of the firm (such as the skills, abilities and capabilities of its’ employees) are managed strategically to achieve competitive advantage (Hall, 1993). An organisation’s commitment to its’ employees reflects the firm’s focus on investing in competence development (Lee & Miller, 1999). Perceived organisational commitment to employees (OCE) engenders a sense of involvement with the company and greater employee initiative and innovation, independent of direct rewards (Shore & Wayne, 1993). Hence, it is hypothesized that firms that possess a higher level of OCE will result in adopting a more strategic HRM orientation towards its employees.

Hypothesis 2: Perceived OCE is positively related to the adoption of strategic HRM in health services firms.

**Strategic HRM and human capital enhancing HR practices**

From a knowledge management perspective, there is a relationship between a firm’s intangible resources and its HR, because strategic people management practices can be used to enhance the individual competence of the firm’s employees (Sveiby, 1997). The largest and most central form of intangible assets is human capital (Snell & Dean, 1992). The internal aspects of the firm such as skills, experience and knowledge are known as human capital (Parnes, 1984), which contribute to the value of the firm (Becker, 1993).

Specific examples of HR practices include: selective staffing, training and providing equitable rewards. Together, these practices outline an integrated and strategic approach to HRM that involves designing and implementing a set of internally consistent practices and policies that attempt to successfully harness the firm’s human capital, particularly employees’ collective knowledge, skills and abilities, toward the
achievement of its business objectives (Huselid, Jackson & Schuler, 1997). For example, comprehensive training is a standard means of building the skills and competence of employees. The extent to which an organisation invests in the development of its' employees is a key mechanism for increasing the productivity and, subsequently, the value, of employees (Koch & McGrath, 1996).

Studies in the public health sector have found that one way of increasing the level of competency within the public health sector is to tie competencies to reward and performance management (Lichtveld & Cioffi, 2003) and the usage of linking reward and compensation systems (Bryson et al., 1996). Firms can place more emphasis on selective tests and other human capital-enhancing HR practices as a means of minimizing the mismatch between individuals and the objectives of the firm (Snell & Dean, 1992).

Similarly, hiring staff selectively is a method that is increasingly important for companies requiring high-ability employees (Snell & Dean, 1992). That is, the more effort the employer is willing to put in to selecting new staff, the better the competence value of employees (Koch & McGrath, 1996). Another HRM element that is part of the repertoire available to managers is the use of equitable reward systems (Snell & Dean, 1992). Together, these practices represent the tactical and strategic components of a strategic approach to HRM that attempts to harness the organisation’s human capital toward the achievement of its business objectives (Huselid, Jackson & Schuler, 1997). Within the HS sector, HR practices have been adopted to enhance human capital by Canadian nursing homes to deploy their human capital and have been found to have a positive relationship with nursing home performance (Rondeau & Wagar, 2001). Subsequently, the combined strategic approach and HR components represent the attempts of the organization to harness their human capital to improve their organization’s performance.

Hypothesis 3: Strategic HRM is positively related to perceptions of firm performance in the health services firms.

Organisational Demographics

Organisational demographics such as size and organizational type (i.e. whether for-profit or non-profit) could play an important role in determining which characteristics can provide the firm with competitive advantage. Size has been often examined in terms of number of employees and it has been found to have an influence on the adoption of HRM and the degree and number of HR practices (Duberley & Walley, 1995).

Hypothesis 4: Larger HS organisations are more likely to adopt strategic HRM than smaller HS organisations.

Similarly, the size of the organisation is often a factor that may impact on its' performance, although size is commonly incorporated as a control variable when predicting performance (e.g. Delaney & Huselid, 1996).

Hypothesis 5: Larger HS organisations are more likely to perform better than smaller HS organisations.
Testing the Direct Impact of NPM. Research from the public sector management literature (e.g., Boyne, Jenkins & Poole, 1999; Rondeau & Wagar, 2001) have demonstrated that there are some similarities and differences in HRM adoption, depending on whether the firm originates from the profit or non-profit sector. With the adoption of new public management culture in the public sector, commercialized agencies has been found to adopt more strategic HRM than those who have yet to advance in commercialisation and corporatization (Teo & Rodwell, 2003).

While similarities and differences still exist in the adoption of strategic HRM, Pfeffer (1994), Youndt and colleagues (1996) argue strongly for the universalistic approach to HRM. These scholars (see discussion by Delery & Doty, 1996 and Pfeffer, 1994) suggest that as a result of the increasing need to be competitive, firms have to adopt best practice HRM systems that transcend sector. Given the size of the Australian health industry and its competitive and heavily politicized terrain (EOHCS, 2001; Stanton, 2000), we would expect HS firms in Australia to adopt the best practice HRM systems. Hence, we hypothesize that

Hypothesis 6: HS firms in the Australian health service sector will emphasize commitment to employees, customer demandingness, and strategic HRM in the same manner, irrespective of their organizational type (i.e. whether they are for-profit or non-profit).

METHOD

Sample

The sample was drawn from a Dun and Bradstreet list of all of the companies in the Australian HS industry that had greater than 50 employees. Altogether 32 percent of the organisations (n=61) responded to the survey. The sample comprised of 34.4 percent from the general medical and surgical hospitals (SIC 8062), followed by 14.8 percent nursing care hospitals (SIC 8051), and 16.4 percent ambulatory surgical centers (SIC 8011). These organisations employed an average of 557 full-time equivalent employees, ranging from 50 to 7000 employees. The survey was typically sent to the Managing Director or General Manager due to their direct knowledge of organisational performance. Almost fifty-four (53.8) percent of the respondents were designated as chief executive officer.

Measures

The questionnaire consists of both formative measures (observed indicators that cause or form the latent constructs) and reflective measures (observed indicators that are caused or formed by the latent constructs). The Cronbach alphas for all of the scales were fair to good, ranging from 0.60 to 0.86 and are presented in Table 1.

Organisational orientation (Reflective measures). The scales used for the more contextual strategic and marketing issues were the OCE scale, based on Lee and Miller (1999) and the level of customer
demandingness faced by the organization, assessed using the Li and Calantone (1998) customer
demandingness scale.

Strategic HRM (Reflective measure). Strategic HRM is composed of the degree of strategic HRM in
the firm (adopted from Huselid, 1995) and all four of the human capital HR scales used by Snell and Dean
(1992). Specifically, the human capital measures used were: Selective staffing, Comprehensive training,
Performance appraisal, and Equitable reward systems. Together, these represent a coverage of the domain
space of strategic HRM both in terms of explicit practices employed (using the Snell & Dean scales) and the
degree to which these practices are present and integrated within a strategic approach to HRM (using the
Huselid strategic HRM scale).

Perceived performance (Reflective measure). Following previous studies (Johansson & Yip, 1994) we
set the dependent construct (Perceived Performance) as having a reflective specification. We have
operationalized organisational performance by adopting two subject performance measures from Delaney and
Huselid (1996). Respondents were asked to answer questions (1) to evaluate their organisation’s performance
as compared to similar organisations over the past three years (Perceived Organisational Performance, seven
items) and (2) to evaluate the performance of the firm over the last three years relative to product market
competitors (Perceived Market Performance).

Perceptual measures of performance are recommended if the sample population contains both profit
and non-profit organisations, particularly due to the often inappropriate nature of financial measures for non-
profit organizations (Delaney & Huselid, 1996; Rondeau & Wagar, 2001). Hence, objective measures of firm
performance were not used, but indicators of organisational and market performance were used, given that the
HS industry has a specific market with comparable, competing firms, and that it would be difficult to find
comparable financial performance measures.

A number of organisational variables that have been found to have an effect on the evaluation of
strategic HRM and firm performance were included as control variables. In a similar manner to Rondeau and
Wagar (2001), we examined ‘Organisational Type’, by creating a dichotomous variable differentiating
between for-profit and non-profit organisations. Organisational size was operationalized by asking the
respondents for the total number of full time equivalent employees. The control variable ‘firm size’ was
obtained by calculating a natural logarithm of the total number of employees (Kimberly, 1976).

Model estimation and Data analysis. Analyses of all hypotheses were carried out using the Partial
Least Square (PLS) latent path model, a well-established technique for estimating path coefficients in causal
models (e.g. Johansson & Yip, 1994). The conceptual core of PLS is an iterative combination of principal
components analysis relating measures to constructs, and path analysis permitting the construction of a system
of constructs (Barclay, Higgins, & Thompson, 1995). The PLS technique, compared with LISREL, has
several advantages, including being able to use smaller sample sizes (for a detailed discussion please refer to Johansson & Yip, 1994). In PLS, the path coefficients are standardized regression coefficients, where the coefficients are similar to factor loadings.

**Validity and reliability issues.** The aim of the current study is to further test and develop the constructs of interest for the health services sector context. Subsequently, we followed the recommendation that the covariance based full-information estimation methods in PLS are considered to be more appropriate for this type of study (Chin, 1997).

Harmann's ex post one-factor test was used to provide an additional check for common method variance (Podsakoff & Organ, 1986). All of the variables used in the current study were entered into an unrotated factor analysis to determine the number of factors. If a single factor emerged from the factor analysis, that result would indicate that the data suffered from a common method variance problem. In the current study, factor analysis of the variables used in the study resulted in six factors, which provided confidence that common method variance was not an issue.

**RESULTS**

Descriptive statistics and correlations are reported in Table 1. Most of the human capital enhancing HR practices are correlated with the performance indicators. Commitment to employees is also correlated with strategic HRM and perceived performance. The two performance variables are highly correlated with each other.
Table 1 Descriptive Statistics, Correlations and Reliabilities of Variables

<table>
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<th>Mean</th>
<th>SD</th>
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<tr>
<td>1. Org size</td>
<td>557</td>
<td>1171</td>
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<td>2. OCE</td>
<td>22.56</td>
<td>2.97</td>
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<td>3. Customer Demandingness</td>
<td>20.88</td>
<td>3.76</td>
<td>-.07</td>
<td>.22</td>
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<td>4. Strategic HRM</td>
<td>26.52</td>
<td>4.02</td>
<td>-.10</td>
<td>.46***</td>
<td>.026</td>
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<td>5. Selective Staffing</td>
<td>32.31</td>
<td>4.43</td>
<td>-.08</td>
<td>.22</td>
<td>.34*</td>
<td>.35**</td>
<td></td>
<td></td>
<td>.29*</td>
<td>.66</td>
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<td>6. Comprehensive training</td>
<td>38.89</td>
<td>7.00</td>
<td>-.13</td>
<td>.33*</td>
<td>.12</td>
<td>.37**</td>
<td>.32*</td>
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<td>7. Equitable reward systems</td>
<td>33.90</td>
<td>5.41</td>
<td>-.17</td>
<td>.16</td>
<td>.13</td>
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<td>8. Performance appraisal</td>
<td>39.33</td>
<td>5.80</td>
<td>-.10</td>
<td>.24</td>
<td>.30*</td>
<td>.44***</td>
<td>.40**</td>
<td>.47***</td>
<td>.44**</td>
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<td>9. Market Performance</td>
<td>11.74</td>
<td>2.15</td>
<td>.06</td>
<td>.16</td>
<td>.03</td>
<td>.27*</td>
<td>.09</td>
<td>.29*</td>
<td>.04</td>
<td>.20</td>
<td>.66</td>
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<tr>
<td>10. Perceived Organisational</td>
<td>22.07</td>
<td>3.01</td>
<td>-.05</td>
<td>.40**</td>
<td>.07</td>
<td>.39**</td>
<td>.22</td>
<td>.49**</td>
<td>.23</td>
<td>.32*</td>
<td>.57**</td>
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Note: *p<.05; **p<.01; ***p<.001 correlation is significant at the 0.05 level (2-tailed), all figures in parentheses on the diagonal are the Cronbach’s alpha for each scale, where applicable.

The underlying model that is the focus of this research project, reflecting the above hypotheses, and the results found in the PLS are summarised in Figure 1. Overall, the relationships between the HR and organisational independent variables and the dependent variable, Perceived performance, were significant ($R^2=0.418$). There is a positive and significant path from Customer Demandingness to Strategic HRM (coefficient=0.519, t-statistic=2.5186, p<.05). Hence, Hypothesis 1 is found to be significant, and positive in direction. There was also a positive and statistically significant path from Commitment to Employees to Strategic HRM (coefficient=0.414, t-statistic=2.5828, p<.01), supporting Hypothesis 2. There was a statistically significant path from Strategic HRM to Firm Performance and the path was positive (coefficient=0.645, t-statistic=3.9558, p<.001). Hypothesis 3 was supported. Consistent with the universalistic approach to HRM, we did not find any differences in the link between customer demandingness, commitment to employees and the adoption of strategic HRM between for profit and non-profit HS firms. Thus Hypothesis 6 was supported. The remaining hypotheses were not supported. Hypotheses 4 and 5 were not supported as there was no size effect on the adoption of Strategic HRM and Perceived Performance.

Figure 1 Results of Path Analysis
DISCUSSION

The current study applies path analysis modeling to estimate the relationships between customer demandingness (external orientation), commitment to employees (internal orientation), strategic HRM and perceived performance in the Australian health services sector. The results strongly suggest that in order to enhance the performance of their firms, it is important for their organisation to align its external and internal orientation with strategic HRM. The current study provides support for the literature that certain HRM practices can, and do, directly lead to organisational performance in the health sector (e.g., Rondeau & Wagar, 2001).

Note: n.s. = not significant; *p<.05; **p<.01, ***p<.001.
The results did not support the hypothesis that for-profit and non-profit HS firms adopt different levels of strategic HRM. That is, the results support the notion of a best practice approach to strategic HRM (DeLery & Doty, 1996), irrespective of whether the organization is for-profit or non-profit.

As highlighted in a number of Australian studies (e.g., Barnett et al., 1996), the extent to which the HRM function of the organizations in this study exhibit a strategic orientation is an important differentiator and potential source of strategic competencies. Unlike the situation in Hong Kong (Thompson, Snape & Stokes, 1999), or the UK (Truss, 2003), the Australian health industry seems to have adopted strategic HRM practices as a means of attracting, retaining, and maintaining knowledge workers in their organizations, where HRM is often acting as part of a strategic business partnership (Ulrich, 1997). Senior executives were able to recognize the importance of acquiring a strategic HRM orientation and the adoption of human capital enhancing HR practices as the means of enhancing firm performance in the climate of continuous health sector reform in Australia.

From a theoretical perspective, the above findings are consistent with the literature on public and non-profit sector management and strategic HRM. First, the above findings highlight the importance of achieving a match between the firm's external orientation (in terms of customer demandingness) and strategic HRM as a means of becoming more marketing and service oriented (Ewing, Ramaseshan & Caruana, 1999). That is, when organizations have demanding customers placing pressure on them to innovate, they are more likely to have a strategic HRM system in place, or will have built a strategic HRM system to cope with earlier demands from customers.

The evidence suggests that as the health sector experiences more global reform in terms of policy and managerial changes (EOHCS, 2001) Australian HS firms emphasize the buying of skills, experience and knowledge through selective staffing and other human capital enhancing practices. Given the size of the Australian health industry and its heavily politicized terrain, our findings indicate that there appears to be a high degree of knowledge sharing within the industry such that a universalistic, or best practice, HRM approach has become adopted (DeLery & Doty, 1996).

This finding has a number of practical implications for HRM in the health services sector. From a practical perspective, the finding implies that the microeconomic and workplace reforms are strongly entrenched within the Australian health industry. The retention of knowledge within HS firms is already in place due to the industry, union and government initiatives put in place to improve the competitiveness of the industry (for example, award restructuring and multi-skilling).

We relied on the self-typing approach by a single respondent (in this case, the most senior executive) due to the difficulty of gaining a high response rate by matching the responses from multiple respondents. Hence, the results should be interpreted cautiously, given the limitation inherent to this study, that of common
method variance as highlighted by Wright and his colleagues (2001). However, the results of Harmann’s ex post one-factor test provided additional support that the problem associating with common method variance is not a major issue in this study.

HR executives could adopt strategies to improve their relationships with senior management. They could put more energy and resources into legitimizing their roles and status within their organisations, especially among the senior management group, the individuals responsible for evaluating the strategic and operational roles (Thompson, Snape, & Stokes, 1999; Ulrich, 1997). With the progress of reforms rampant in the health sector in Australia and abroad, HR managers could also undertake a proactive role in informing these senior management groups of the need to align the changing values and norms with the changing health landscape, often called a change agent role (Ulrich, 1997). Finally, strategies could be adopted to publicize the success of the HR department in relation to the bottom line of the organisations. That is, practitioners have to move away from administrative roles and position themselves as strategic business partners.

Conclusion

Irrespective of whether the organisation is for-profit or nonprofit, strategic HRM is a key predictor of performance in Australian HS organisations. That is, this study supports the universalistic best practice approach to strategic HRM, and highlights the importance of attracting, retaining and motivating knowledge workers in the health services sector. Future research could examine the development of intellectual capital (not just human capital, but including social and structural capital) across firms and industries to test the model of strategic HRM developed in the current paper.

REFERENCES


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Graham Elkin, Head of Department
Department of Management

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