

Does strategic human resource management matter in high-tech sector? Some learning points for SME managers

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Abstract

Purpose – The main purpose of this paper is to examine the nature and impact of human resource capabilities and involvement on the firm's performance in the SME sector.

Design/methodology/approach – This research is based on an empirical survey of Chief Executive Officers (CEOs) and their perception of the HR involvement in strategy development in high tech SMEs operating in the electronics industry in the UK. Postal questionnaire is the main data collection instrument for this research. A combination of qualitative and quantitative approaches has been employed for data analysis.

Findings – The important conclusion reached is that increasing the core competencies of the firm, in particular in HR, is the key element to the success of the firm. Moreover, it is posed that the growing involvement of the HR in the development and implementation of business strategy will lead to the increased effectiveness of the organisation and the industry as a whole. Finally, the competitive advantage a firm enjoys can come from the distinctive capabilities which provide it with a core competence in HR.

Research limitations/implications – The present study is concerned solely with small and medium-sized enterprises in the electrical and electronic manufacturing sector in the UK. A further comparative international-wide study is recommended.

Practical implications – In order to increase firm performance and to benefit from HR capabilities, it is recommended that practitioners and SME CEOs increase the involvement of their HR specialists in the processes of strategic management in their firms.

Originality/value – The principal contribution of this first-time study has been the attempt to explore the CEO's perceptions of HR, its capabilities and its degree of strategic involvement as significant determining factors to ensure competitive advantages for the firm in a highly changing market.

Keywords Human resources management, Small to medium-sized enterprises, Organizational performance, Managers, United Kingdom

Paper type Research paper

Introduction

Corporate governance structures determine the strategic policy and decision making frameworks in all types of organisations. However the small scale of SMEs and in particular their ownership structures leads to a combination of roles especially those of owner and manager ("principal" and "agent" Berle and Means (1932) in Williamson (1974)). In this context the decisions regarding the allocation of organisational resources are the product of governance structures in which the responsibility for allocation of strategic resources is concentrated in the hands of very few individuals. The governance structures become instrumental in mediating the competition for scarce resources and determining their relative value. This paper examines the strategic role of HRM in SMEs and its contribution to firm performance and comments the implications for governance.

Recognition of the importance of small and medium sized enterprises to the economic system of a country is responsible for an increased interest in recent years in studying SMEs

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from different perspectives, including that of strategic human resource management (SHRM). In recent years, much concern has been shown for the strategic involvement of the human resource (HR) and its effect on firm's performance (Lahteenmaki *et al.*, 1998; Rangone, 1999; Analoui, 2002) in high tech SME's. The debate has led to the creation of a resource-based model of HRM (Boxall, 1996), identifying HR as being responsible for increasing organisational success (Kakabadse and Kakabadse, 2000) and a realistic indicator for improved organisational effectiveness (Analoui, 2002). The resource-based approach to strategic management considers HR as a unique source of competitive advantage for the firm (Lorange and Murphy, 1984; Lundy, 1994; Storey, 1998). It has even been suggested that there is a link between a firm's performance and the utilisation of its human resources (Lahteenmaki *et al.*, 1998; Baird and Meshoulan, 1998). The notion surrounding the importance of HR in its distinctive sense derives from the view that people management is a key competence for ensuring sustained competitive advantage (Mabey *et al.*, 1998).

Although the basic strategic HRM process can be similar for both large and small firms, there are several important differences between them. These differences are based on the small business manager's personal goals and values. They are also related to the objectives they seek, the way they perform, and the people who participate in the business. This paper seeks to explore the CEOs' perceptions and attitudes towards human resources as strategic assets in the firm. It reports on the findings of an empirical study into the present state of strategic HRM in small and medium sized enterprises within the electronics industry in the UK. The focus will be on whether or not SMEs' CEOs, as strategists, perceive their human resource capability as a source of competitive advantage for their firms. Following a brief review of the debate on SHRM and the application of the resource-based view of the firm, the theoretical framework and the hypotheses developed will be addressed. The principal research methods employed, including the sample and variable measurements and data analysis, will be introduced to provide the context for the discussion of the empirical findings concerning the CEOs' perceptions of SHRM and its link to firm performance in their industry. Finally, in a discussion based on the above, a series of conclusions will be drawn.

Research background and theoretical framework

The changing patterns of managing HR from a traditional and static approach to a more strategic form are much emphasised (Purcell, 1993; Tyson, 1997; Analoui, 2002). When highlighting the difference between the two, the question often posed is: What makes strategic human resource management "more strategic"? (Hendry and Pettigrew, 1990; Karami, 2001). According to Hendry and Pettigrew (1990), the strategic aspect of human resource management refers to matching HR policies and activities to some explicit business strategies.

Barney *et al.* (2001) when considering corporate governance and the RBV comment that: "While governance *per se*, may not be a source of competitive advantage, failure to implement the correct governance in a situation can lead firms to not fully realise the benefits of the resources they control." (Barney *et al.*, 2001, p. 632). This would suggest that governance structures have a direct bearing on the salience of which resources are valued and this in turn has implications for recognition of the strategic nature of the HR function.

The key difference between traditional and strategic concepts, is the extent to which the management of HR is integrated into the strategic decision making processes which direct organisational efforts towards coping with the environment (Guest, 1990; Lahteenmaki *et al.*, 1998). It is aptly noted that while:

... traditional human resource ideas emphasise solely on physical skills [...] concern for individual efficiency and quality and finally the workforce as management adversary.[...], the emerging strategic human resource management ideas emphasises the total contribution to the firm; innovative and creative behaviour; overall effectiveness; and cross-functional integration; investment in people and finally workforce as management partner (Pearce and Robinson, 1997, p. 319).



Becker *et al.* (1997), go further to contend that HR not only must focus on business level outcomes but also it must transform itself into a strategic core competency rather than being a market follower. Accordingly, the focus is shifted on to strategic instead of functional competencies, placing emphasis on the most important missing element in the HR's functional expertise- a systems perspective.

Unlike conventional assets, strategic human resources, as a form of intellectual or organisational capital, are largely invisible and cannot appear on the firm's balance sheet (Tomer, 1987). Such assets could only be found in a skilled, motivated and adaptable workforce, and in the HRM system that strategically develops and sustains it. Indeed, as intellectual capital has come to represent an increasing fraction of many firms' total assets, the strategic role of the HRM system has also become more critical (Kakabadse and Myers, 1995) as a source of organisational capabilities that allow firms to learn and capitalise on new opportunities (Ulrich and Lake, 1990). Thus, employees are regarded as a strategic resource which, in turn, implies that people are a critical investment in a firm's performance (Purcell, 1993; Boxall, 1996; Bennett *et al.*, 1998).

It is argued here that, as Boxall (1996) asserts, the resource-based perspective implies the need to build strategic management processes. Therefore, the role of HR in increasing firm performance in large (and small) firms significantly relates to the perception of the top management team and their HR capabilities (Prahalad and Hamel, 1990; Hunt, 1995). Moreover, it has been stressed that the integration of HR and strategy was greater when top managers viewed employees as strategic resources (Bennett *et al.*, 1998). Thus, since CEOs, especially the owner managers of high-tech SMEs play a similar, if not a greater key role in developing business strategies. Primarily the study has focussed on the nature of the relationship between HR capabilities, and the performance of the firm. As Miller (2003) argues, high-tech firms must develop new capabilities as they hone and exploit their existing ones. Capabilities are defined as "the bundles of complementary resources... administrative skills, routines, and physical assets with the flexibility to generate adaptive and valuable inputs" (Miller, 2003, p. 964). New capabilities usually require radically different knowledge from that which the firm presently has. Exploiting existing capabilities requires envisioning new uses in new or current markets (Zahra and George, 2002). This paper is therefore, aims to explore the CEO's perceptions of their firms' HR capabilities and how in their view this relates to the performance of their business. This concern formed the basis for formation of the following research hypotheses:

H1. Increasing HR capacities of the firm will positively correlate with the increasing performance of the firm.

Exploring the nature of the HR involvement in developing business strategies, in both low and high performance SME firms, was the second aim of the study. Arguably, the desire to gain competitive advantage by integrating HRM with business strategy is the main rationale behind strategic HRM thinking (Lahteenmaki *et al.*, 1998). Following the increasing interest in analysing competitive strategic approaches, in the face of mounting competition throughout industry, HRM has been identified as a potential source of competitive advantage (Analoui, 2002). Some proponents of SHRM have even argued that, the management of human resources must fit within a suitable strategy (Kakabadse and Kakabadse, 1998; Mabey *et al.*, 1998). To investigate this issue in SME sector, a fundamental question was posed: are human resources involved in the development of the business strategies in high-tech SMES and, if so, how does this involvement result in the firm's increased performance? These concerns formed the basis for the formulation of the second hypothesis:

H2. In the high performance firms, human resources have been more involved in the process of formulating strategy than in low performance ones.

Methodology

The population for this research was comprised of private high-tech knowledge-based SMEs operating in the electronics industry in the UK. Knowledge-based firms refer to



“companies where most work can be said to be of an intellectual nature and where well-educated, qualified employees form the major part of the work force” (Alvesson, 2000, p. 1101). These qualified employees or professionals obtain their knowledge through formal education and also through “learning by doing” through interaction with others, which is largely tacit (Nonaka and Takeuchi, 1995). Public sector and large companies were deliberately excluded from this study. The sample of 500 SMEs has been drawn from the population studied using the UK Standard Industrial Classification (SIC) and based on two criteria:

1. SME firms employing less than 250 employees; and
2. having less than £50 million turnover in their last financial year.

The main research instrument was a survey questionnaire. Data was successfully collected via a mail survey from 132 (27 per cent response rate) CEOs of the firms studied. The variables were measured in three levels namely nominal, ordinal and interval levels. In the case of the ordinal scale a five-point Likert type scale ranging from 1 (low) to 5 (high) was applied. A personalised cover letter explained the purpose of the study and urged executives to personally participate in the survey. In order to minimise response bias, the respondents were provided with pre-addressed envelopes to improve the return rate and to ensure that completed questionnaires directly to the researchers.

Findings and results

Descriptive analysis

In order to analyse the data and consequently test the hypothesis, the collected data was summarised using statistical graphs such as, bar charts and histograms. In addition, various descriptive statistics including means, medians, modes, standard deviations, coefficient of skewness and kurtosis were calculated. The main reason for such analysis was to get a clear picture of how the different variables were distributed. The general picture which emerged indicated the presence of skewed and non-normal distributions. In order to cross check these observations regarding the distributions, the Kolmogorove-Smirnove goodness-of-fit test on the data to check for normality has been performed. The result of the test confirmed that the majority of variables were not normally distributed. Accordingly, the finding had a big influence on the choice of statistical techniques used for testing the hypotheses. In addition the variables were measured in ordinal scale. This finding led the researchers to choose non-parametric statistical techniques.

Of the 500 distributed questionnaires, 132 were returned from CEOs, a response rate of 27 per cent for analysis. Descriptive data analysis shows that the majority of the respondents ($N = 116, 88\text{percent}$) were male, while only 12 per cent of respondents ($N = 16$) were female. The respondents' minimum number of total years of work experience was 8 years and the maximum was 42 years. Also, 73 per cent of respondents reported that they have had formal management training. The number of employees of the firms varied from a minimum of $N = 16$ to a maximum of $N = 249$. As noted earlier, we measured the firm size using the number of employees and annual turnover of the firms. Accordingly, the amount of turnover of the firms in the last financial year was calculated to be between £1.25 million up to £50 million.

Using the Spearman's rank order correlation technique, the correlation between variables has been calculated. The descriptive statistics and correlation matrix of the variables are reported in Table I.

Regarding the first objectives of the research, we examined the correlation between the HR capabilities and the performance of the firms. As illustrated in Table I, generally, there is a significant correlation between HR capabilities and company performance ($\gamma=0.64$; $p < 0.01$). However, supporting the above result, the correlation between firm performance and the indicators of the HR capabilities such as HR skills ($\gamma = 0.68$; $p < 0.01$); innovative HR ($\gamma = 0.59$; $p < 0.01$); HR effectiveness ($\gamma = 0.66$; $p < 0.01$); HR training competency ($\gamma = 0.83$; $p < 0.01$) were positive and stronger.



Table I Non-parametric Spearman rank order correlation matrix

| | M = | SD = | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|------------------------------------|------|------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-------|--------|-------|--------|----|
| 1. HR capabilities | 3.89 | 1.18 | 1 | | | | | | | | | | | | | | |
| 2. Skilled HR | 4.12 | 1.09 | 0.07 | 1 | | | | | | | | | | | | | |
| 3. Innovative HR | 3.74 | 1.07 | 0.15 | 0.28 | 1 | | | | | | | | | | | | |
| 4. HR effectiveness | 3.58 | 1.02 | 0.21 | 0.41* | 0.52* | 1 | | | | | | | | | | | |
| 5. Training HR | 3.01 | 1.14 | 0.36 | 0.72** | 0.41* | 0.51* | 1 | | | | | | | | | | |
| 6. HR commitment | 2.82 | .86 | 0.01 | 0.52* | 0.48* | 0.35 | 0.29 | 1 | | | | | | | | | |
| 7. HR involvement in strategy | 3.58 | 1.05 | 0.54* | -0.20 | -0.28 | 0.18 | 0.11 | 0.31 | 1 | | | | | | | | |
| 8. HR involvement in LRP | 2.91 | 1.14 | 0.49* | -0.18 | 0.31 | 0.29 | 0.18 | 0.38 | 0.41* | 1 | | | | | | | |
| 9. Revising HR systems | 2.61 | 0.90 | 0.38 | 0.22 | 0.37 | -0.18 | 0.10 | 0.22 | 0.38 | 0.12 | 1 | | | | | | |
| 10. Developing HR systems | 3.42 | 1.25 | 0.20 | 0.33 | 0.42* | -0.11 | 0.23 | 0.27 | 0.43* | 0.18 | 0.48* | 1 | | | | | |
| 11. Organizational effectiveness | 3.80 | 1.08 | 0.32 | 0.47* | 0.49* | 0.58** | 0.54** | 0.56** | 0.55** | 0.13 | 0.49* | 0.41* | 1 | | | | |
| 12. HR as a key source of the firm | 3.83 | 1.11 | 0.44* | 0.18 | -0.17 | 0.14 | 0.40* | 0.43* | 0.38 | 0.23 | 0.31 | 0.19 | 0.51* | 1 | | | |
| 13. Linkage HR and strategy | 3.62 | 1.20 | 0.00 | -0.31 | 0.09 | -0.23 | 0.38 | 0.33 | 0.20 | 0.34 | 0.12 | -0.20 | 0.32 | 0.61** | 1 | | |
| 14. Product quality | 4.05 | 1.09 | 0.61** | 0.42* | 0.45* | 0.41* | 0.66** | 0.32 | 0.39 | 0.52* | 0.33 | 0.30 | 0.44* | 0.52* | 0.41* | 1 | |
| 15. Firm performance | 2.48 | 1.08 | 0.64** | 0.68** | 0.59** | 0.66** | 0.83** | 0.29 | 0.70** | 0.79** | 0.36 | 0.62** | 0.42* | 0.58* | 0.11 | 0.72** | 1 |

Notes: * Correlation is significant at the 0.05 level (two-tailed); ** Correlation is significant at the 0.01 level (two-tailed)

M = Means related a five-point Likert scale (from 1 = low to 5 = high); SD = Standard deviations related a five-point Likert scale (from 1 = low to 5 = high)

The second objective of the research was examining the correlation between HR involvement in strategy formulation and firm performance in the studied firms. Accordingly, the correlation between HR involvement in business strategy and firm performance confirms a positive relationship ($\gamma = 0.70$; $p < 0.01$) between these variables. In other words, human resources are more involved in the planning and implementation of business strategies in high performance firms than in low performance ones. This finding is supported by the positive and significant relation between firm performance and HR involvement in long range planning ($\gamma = 0.79$; $p < 0.01$); and, HR involvement in developing HR systems ($\gamma = 0.62$; $p < 0.01$).

It has also been found that, human resources are more involved in the strategic management process of the firm when the executives perceive HR as an important factor for determining competitive advantage. Moreover, it will be contended that, organisational effectiveness is positively related to HR involvement in the strategic management process.

Human resource capabilities

The findings of the research show that, the majority of executives rated HR capabilities as a key resource ($N = 94$, 71.2 per cent as very important and essential) within the firms studied. Accordingly, it can be safely assumed that if CEOs perceive HR as a key resource they would place more emphasis on increasing the HR capabilities of their firms. Consequently, it was hypothesised that increasing HR capabilities will lead to increased firm performance. To test this, the CEOs were asked to rate the effects of the HR capabilities on the firm's performance.

The results in Table II confirm that the majority of CEOs believe that human resource capabilities namely, skilled workforce ($N = 91$, 69percent); innovative human resource ($N = 78$, 59percent); effective human resources ($N = 102$, 78percent); training competent employees ($N = 108$, 81percent) and HR commitment ($N = 82$, 62percent) have high impact on increasing the firm's performance.

This result has been confirmed by Spearman's correlation coefficient of the HR capabilities and firm performance ($\gamma = 0.64$: $p < 0.01$). More specifically, in order to verify this result statistically and to see whether or not any relationship exists between the HR capabilities and a firm's performance, we tested hypothesis 1. In this regard, in a non-parametric ANOVA (Kruskal-Wallis) test we found a significant relationship between HR capabilities and the performance of the firms ($\chi^2 = 181.837$: $df = 16$: $p < 0.01$).

Table III illustrates the result of Kruskal-Wallis test on firm performance on each of the HR capabilities indicators. Supporting this result we found that the relationship between firm performance and skilled HR ($\chi^2 = 234.115$: $df = 16$: $p < 0.01$), innovative HR ($\chi^2 = 201.732$: $df = 16$: $p < 0.05$), effective HR ($\chi^2 = 119.272$: $df = 16$: $p < 0.01$), training competent HR ($\chi^2 = 172.233$: $df = 16$: $p < 0.01$), HR commitment ($\chi^2 = 166.152$: $df = 16$: $p < 0.01$), were positive and significant. Subsequently, since a strong and positive relationship was discovered between a firm's performance and the HR capabilities, these results have led us to accept the hypothesis that increasing HR capabilities of the firms positively correlate with the increasing performance of the firms.

Table II The impacts of HR capabilities on firm performance

| <i>HR capabilities</i> | <i>Low (1 or 2)</i> | | <i>Medium (3)</i> | | <i>High (4 to 5)</i> | | <i>Total number</i> |
|------------------------------|---------------------|-----|-------------------|-----|----------------------|-----|---------------------|
| Skilled HR | 9 | 7% | 32 | 24% | 91 | 69% | 132 |
| Innovative HR | 12 | 9% | 40 | 30% | 78 | 59% | 130 |
| Effective HR | 7 | 5% | 20 | 15% | 102 | 78% | 129 |
| Training competent employees | 3 | 2% | 21 | 16% | 108 | 81% | 132 |
| HR commitment | 14 | 11% | 36 | 27% | 82 | 62% | 132 |



Table III The results of non-parametric ANOVA (Kruskal-Wallis test)

| Measured variables | χ^2 value | df | Significant (two-sided) |
|-------------------------------|----------------|----|-------------------------|
| Firm performance V | | | |
| a) HR capabilities (general) | 181.837 | 16 | $P < 0.01$ |
| Skilled HR | 234.115 | 16 | $PP < 0.01$ |
| Innovative HR | 201.732 | 16 | $PP < 0.05$ |
| Effective HR | 119.272 | 18 | $PP < 0.01$ |
| Training competent HR | 172.233 | 16 | $PP < 0.01$ |
| HR commitment | 166.152 | 16 | $PP < 0.01$ |
| b) HR involvement in strategy | 282.720 | 16 | $PP < 0.01$ |
| Long-range planning | 171.912 | 17 | $PP < 0.01$ |
| Revising HR systems | 227.830 | 16 | $PP < 0.01$ |
| Developing HR systems | 246.121 | 16 | $PP < 0.01$ |

Human resource involvement

As discussed earlier, HR involvement in the development and implementation of business strategies in small as well as large firms is one of the critical issues in studying HRM. To examine this thesis in context of UK manufacturing SMEs in this study, the CEOs were asked to rate the level of HR involvement in the process of formulation and implementation of strategy within their firms. The analysis of the data shows that human resources are more involved in strategy activities in high performance SMEs rather than low performance SMEs (see Table IV). For instance in the high performance firms human resources were highly involved in strategy formulation, long range planning, revising HR systems, and developing HR systems. Supporting the findings of Wright *et al.* (1998), we also found a positive and significant correlation between HR involvement and firm performance in general ($\gamma = 0.70$: $p < 0.01$) in the SMEs studied.

Accordingly, it has been assumed that there is a positive relationship between the HR involvement in the process of strategy and firm performance. In this regard, the second hypothesis indicates that human resources are more involved in the process of formulating strategy in the high performance firms than low performance ones. As it has been shown in Table III, in a non-parametric analysis of variance test (Kruskal-Wallis) a significant relationship was found between firm performance and HR involvement in strategy ($\chi^2 = 282.720$: $df = 16$: $p < 0.01$). The result of Chi-square test between firm performance and HR involvement in long range planning ($\chi^2 = 171.912$: $df = 17$: $p < 0.01$), HR involvement in revising HR systems ($\chi^2 = 227.830$: $df = 16$: $p < 0.01$), and developing HR systems ($\chi^2 = 246.121$: $df = 16$: $p < 0.01$) were significant. Therefore, the data analysis revealed that in the high performance firms, human resources have been more involved in the process of formulating strategy that in low performance ones.

Discussion

We tested the hypothesised relationships among variables using non-parametric statistical techniques namely Spearman's rank order correlation and non-parametric ANOVA (Kruskal-Wallis test). These analytical techniques allowed us to identify the relative

Table IV HR involvement in strategy within high and low performance SMEs

| Factors | Low performance SMEs ^a | High performance SMEs ^b |
|-----------------------|-----------------------------------|------------------------------------|
| Strategy formulation | 42 | 94 |
| Long-range planning | 39 | 82 |
| Revising HR systems | 28 | 78 |
| Developing HR systems | 44 | 91 |

Notes: ^a A percentage value indicates the percentage of the low performance firms ($n = 39$) which shows the level of HR involvement in strategy; ^b A percentage value indicates the percentage of the high performance firms ($n = 52$) which shows the level of HR involvement in strategy

magnitudes of the relationships between HR capabilities, HR involvement in strategy and firm's performance. This includes firm performance versus HR capabilities in general, skilled HR, innovative HR, HR effectiveness, training competent employees and HR commitment; and firm performance versus HR involvement in the strategic management process of the firm in general; and finally, HR involvement in long range planning, revising the existing and developing new HR systems.

The paper has focused on identifying the nature and impact of human resource capabilities and involvement on the firm's performance. In this regard, as Boxall (1996) aptly argues by defining firms as unique bundles of resources, the resource-based perspective emphasises the inevitable imperfection of factor- markets. Thus, the HR capability of the firm is a considerable resource that determines the competitive advantage of the firm. Accordingly, Analoui (2002) defines managerial skills namely, task, people and self-development and analytical categories as HR capabilities of the firm. In the light of a resource-based view, we assumed that HR capabilities, including skilled human resources, innovative human resources, human resource effectiveness, HR commitment, and training competent HR are factors that determine the competitive advantages of the firm. Supported by the results of previous works (for example, Lahteenmaki *et al.*, 1998) it is stated that the first hypothesis is mainly concerned with a positive relationship between HR capabilities and the performance of the firm. In other words, as identified earlier, it addresses the question: Do CEOs perceive HR capabilities as factors that can determine the competitive advantage of their firm? And if they do, to what extent this factor has had impact on the company's performance? The findings of the research illustrate that the majority of executives rated HR capabilities as a key resource within the organisation, thus confirming the previous researchers' view (Dyer and Reeves, 1995).

It was also found that utilisation of the firm's resources, particularly; its human resources could be related to the CEOs' perception of the importance of HR as a key resource of the firm. More specifically, a strong and positive relationship was discovered between a firm's performance and its HR capabilities, in the firms studied. This finding confirms the result of previous researches (Wright *et al.*, 1998; Rangone, 1999) indicating that the firm's performance tends to relate positively to the core competencies of the organisation. Additionally, this result shows that one of the key competitive advantages of the firm is its human resources capabilities, which enable the generation of organisational effectiveness and consequently the high performance of the firm. Thus, any investment in increasing human resource capabilities must be considered as a crucial factor, which, in turn, will increase the firm's performance. It can be, therefore, safely concluded that, increasing the HR competencies and capabilities of a firm will contribute to a firm's success in achieving its goals and objectives in a competitive landscape. The pre-requisite for this happening is of course the perception of the CEOs of their firms that HR is of strategic importance.

An increasing number of studies have attempted to assess the HR involvement in the process of formulating strategy (Martell and Carroll, 1995; Anderson, 1997; Wright *et al.*, 1998). Indeed, numerous writers (for example, Bennett *et al.*, 1998; Wright *et al.*, 1998) have called for an increased involvement of the HR in the strategic management of the firm, yet very little data exists to confirm the effectiveness of it. Anderson (1997) has contended that, HR specialists ought to assist the management to realise the full value obtainable from HR function in support of business objectives. This could serve two fundamental and specific purposes. The first is linking people strategies to the company's strategic management process. The second is developing HR strategy to support the corporation strategies (Anderson, 1997).

As Wright *et al.* (1998) correctly contend, although many researchers (for example, Schuler, 1992; Truss and Gratton, 1994; Analoui and Karami, 2003) have called for the increased involvement of HR in strategic management, very little research has been carried out to examine the consequences of such HR involvement in the process of development and implementation of business strategies. In the present research, we found that, in high performance SMEs, HR is reported as more involved in strategy development than low



performance firms. This finding is not similar to the findings of certain previous studies. For instance, Bennett *et al.* (1998) in their study, propose that there is a negative relationship between HR involvement in strategy development and HR effectiveness. In contrast, the findings of this paper support the results of the mainstream of HRM research. For instance, Wright *et al.* (1998) in their recent study found a strong correlation between HR involvement and organisational effectiveness. In other words, they pointed to the fact that “managers highly value the HR function when their HR executives are heavily involved in strategic decision making” (Wright *et al.*, 1998, p. 24).

The results of the data analysis reveal that the contribution of Human Resources, in the development and implementation of strategies, is very much related to the CEOs' perception of HR as an important factor in a firm's performance. Overall, these results indicate that human resources are more involved in strategic activities, such as developing HR systems, strategy formulation, long range planning and revising HR systems, in those firms where their CEOs perceive HR as a key source of competitive advantage.

Conclusions and managerial implications

Building on the few existing works in the field, this study has attempted to make a significant contribution to the topic of corporate governance in SME sector. The principal contribution of this first time study has been the attempt to explore the CEO's perceptions of HR, its capabilities and its degree of strategic involvement as significant determining factors to ensure competitive advantages for the firm in a highly changing market. It is important to reiterate that the present study is solely concerned with small and medium sized enterprises in the electrical and electronic manufacturing sector. Therefore, it will not be safe to offer a sweeping generalisation by unreservedly applying its main findings to other sectors of the industry. Moreover, the results reflect the thinking and perception of the CEOs, albeit the most important cadre of senior management in organisations, rather than the view of peer members of the senior management team. To obtain a comprehensive and more reliable overview of the situation, it is essential that the research be extended to other sectors – a challenge which ought to be undertaken in future examination of the strategic involvement of the HR in the running of the firm. However, despite these limitations, this empirical study has achieved the set objectives and arguably has opened various avenues for future research. Among other contributions, the present study has established an empirical basis for examining the impact of human resources and their involvement on increasing firm performance. As shown earlier, increasing the core competencies of the firm, especially its HR capabilities, leads to highly successful performance of the firm within the small and medium-sized electrical and electronics manufacturing enterprises. More specifically, the results support the claim that performance of the SMEs is positively related to their HR competencies. Thus, any investment towards increasing human resource capabilities must be considered as a crucial and strategic factor, which will, in turn, increase the firm's performance. Therefore, it can be recommended to practitioners and senior management of SMEs that the investment made in increasing HR competencies ought not to be regarded as “cost” rather it ought to be seen as a critical investment decision which will be a considerable factor in developing their organisations' capacity in strategic management.

It can, therefore, be concluded that an investment to increase HR capabilities will contribute to the successful achievement of its goals and objectives in a competitive landscape. There seems to be a strong and positive relationship present between the degree of HR involvement in the development and implementation of business strategy and that of organisational performance in the SMEs. In high performance firms, HR is more involved in strategic activities such as long range planning, revising and developing new HR systems. Thus, in order to increase firm performance and to benefit from HR capabilities, it is recommended that practitioners and SME CEOs increase the involvement of their HR specialists in the processes of strategic management in their firms.

In the light of these findings we observe that while governance structures routinely reflect the importance of financial resources, this research would indicate that similar prominence should be given to human resources. These findings suggest the way we account for and



value our human resources, as a key strategic resource, should be reflected in the status of the HR function in SMEs. Our research indicates that those SMEs which routinely involve HR in strategic management, and which therefore have governance structures which facilitate this, enjoy higher levels of performance than those whose governance structures fail to recognise the competitive advantage that SHRM can confer.

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