

# 科技部補助專題研究計畫成果報告

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人力資本策略對組織績效的影響--內外部勞動市場的觀點

**Project Title : The Impact of Human Capital Strategies on Organizational Performance – The View of Internal and External Labor Markets**

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本計畫除繳交成果報告外，另含下列出國報告，共 1 份：

執行國際合作與移地研究心得報告

出席國際學術會議心得報告

出國參訪及考察心得報告

# **The Impact of Human Capital Strategies on Organizational Performance-- The View of Internal and External Labor Markets**

## **Abstract**

According to human capital theory, companies derive economic value from the knowledge, skills, and abilities (KSAs) possessed by their employees. Research conducted by the strategic human resource management has focused on how investment in human capital can create a competitive advantage for an organization. It is, therefore, valuable to investigate how the choice of different human capital acquisition strategies—"make or buy"—can influence organizational performance. This study explores the relationship between internal and external human capital strategies and organizational performance in Taiwan's service industries. This study

- seeks to determine how choice of internal and external human capital strategies can improve organizational performance via the organizational cohesion (organizational climate of trust and affective commitment), and thereby enrich the fields of strategic human resource management, organizational climate, and organizational performance.

## **Keywords:**

Internal and External Human Capital Strategies; Organizational climate of trust; Affective commitment; Organizational Performance.

## **Introduction**

Many recent studies on strategic human resource management (SHRM) (Takeuchi, Chen, & Lepak, 2009) have focused on how to improve organizational performance in order to enhance organizational performance. What external and internal factors influence organizational performance (Batt & Banerjee, 2012 ; Takeuchi, Chen, & Lepak, 2009)? According to human capital theory, companies derive economic value from the knowledge, skills, and abilities (KSAs) possessed by their employees (Youndt & Snell 2004; Youndt et al. 1996). Research conducted by the strategic human resource management has focused on how investment in human capital can create a competitive advantage for an organization (Snell & Dean 1992; Youndt et al. 1996). Companies can increase their human capital internally by developing the knowledge and skills of their existing employees, or externally by attracting personnel with high knowledge and skills from the external labor market (Lepak & Snell 1999). Past research has also tended to focus on uncovering antecedents that influence internal and external human capital strategies (Lepak & Snell 1999; Rao & Drazin 2002). This study, however, focuses on how to use internal and external human capital strategies, including the development and retention of internal human capital and attraction of external skilled manpower, to influence organizational performance. The goal of this study is to determine how the choice of different human capital acquisition strategies—"make or buy"—can influence the climate of organizational trust and the climate of group trust, and thereby affect organizational performance. This study uses labor market theory to analyze the effects of internal and external human capital strategies.

This study seeks to determine how choice of internal and external human capital

strategies can improve organizational performance via the organizational cohesion (organizational climate of trust and affective commitment), and thereby enrich the fields of strategic human resource management, organizational climate, and organizational performance. This study makes the following main contributions to these three areas: First, it remedies the failure of strategic human resource management to distinguish internal and external human capital strategies from the perspective of labor market theory. Second, it explores organizational climate from a cross-level research perspective. While past research typically analyzed organizational climate from the perspective of a single level, this study adopts a cross-level perspective by examining the relationship between organizational climate of trust at the organizational level and affective commitment at the group level. Third, there has been little research in strategic human resource management concerning mediating mechanisms or processes. We therefore propose organizational cohesion (organizational climate of trust and affective commitment) as a possible third factor influencing organizational performance, and empirically verify this relationship.

## **Literature**

### ***The Internal and External Human Capital Strategies in Labor Market View***

The concept of a labor market was first proposed by the American labor economist Lester (1948) and theoretical economist Reynolds (1951). Many scholars subsequently investigated labor markets from many angles, including labor market differentiation (Kerr, 1954) and wage differences (Caines, 1874). Internal labor markets are labor markets that exist within companies, and constitute the sum of a company's internal individual labor contracts and manpower allocation (Whyte, 1956). The features of internal labor markets include: internal labor markets chiefly rely on management and organizational systems for their means of regulation, and manpower allocation is controlled by management rules in a bureaucratic organization. Second, since the terms of labor contracts in an internal labor market tend to be relatively long, companies can rely on commitment to strengthen their relationships with employees, provide long-term career development opportunities, and not easily dismiss employees (Davis-Blake & Uzzi 1993). Third, the determination of wages in internal labor markets is connected with employees' long-term performance or seniority. In contrast, an external labor market is a market in which labor prices, manpower allocation, and training are directly influenced by market economics. External labor markets chiefly rely on prices as a means of regulation. In an external labor market, demand for individual workers and labor supply liquidity are high, while labor contracts have relatively short terms. Wages are determined by the market mechanism in external labor markets, and are set in accordance with the market value of manpower.

According to human capital theory (Becker 1975), employees can obtain individual human capital insofar as they are willing to invest time and effort, and will make rational choices concerning their human capital. From another perspective, human capital is the result of a company's cautious, long-term investment. Employers and employees will assess compensation and provide feedback concerning whether the employees are worthy of continued investment. The expected results of the exchange of value between employer and employee will affect the employee's socialization process. Exchange relationships encompass economic exchanges and social exchanges. Social exchanges include nonspecific, long-term, extensive, unrestricted duties, and not contractual monetary exchanges (Blau 1986; Tsui et al. 1997). When an employer emphasizes the social exchange element of an employment relationship, the employer will be willing to pay more attention to the employee's well-being. In order to meet employees' future development needs, companies may be willing to invest in training and career development activities with the outlook that training existing human capital is superior to purchasing human capital on the external labor market (Blau 1986; Tsui et al. 1997; Barnard & Rodgers 2000; Collins & Smith 2006). In this type of relationship, when the majority of employees establish shared interpretations and perceptions of the organization's policies, practices, procedures, and objectives, a tangible organizational climate of trust will emerge. Past research has found that there is a positive correlation between an internal human capital strategy and organizational climate of trust (Takeuchi et al. 2009), and a company with an effective internal human capital strategy can create an excellent Organizational climate of trust.

*Hypothesis 1:* Internal human capital strategy has a positive effect on organizational climate of trust.

An external human capital strategy may alter employees' thinking concerning contribution to the organization. It may make them unwilling to invest themselves in the company, but rather induce them to develop their individual, inherent human capital. Since their goal is to compete effectively in the external labor market, employees will not be interested in developing and learning firm-specific skills. This also implies that employees will tend to feel little responsibility for the organization's goals, and have little emotional commitment to the organization's development. In addition, responding to an external human capital strategy, employees will only engage in task-related work and nonspecific organizational work, but will not engage in social exchange behavior. As a consequence, an external human capital strategy is considered to reduce employees' trust in the organization (Lepak & Snell 1999; Tsui et al., 1995).

*Hypothesis 2:* External human capital strategy has a negative effect on organizational climate of trust.

### ***Organizational climate of trust***

An organizational climate of trust represents employees' direct or indirect perceptual response toward the organization's internal environment, policies, and procedures. This perceptual response will influence members' motivation and behavior. An organizational climate of trust will be a meaningful mechanism only when employees share common perceptions (Ashkanasy, Wilderom, & Peterson, 2000; James, 1982; Litwin & Stringer, 1968). Aukje & Isabel (2005) further suggest that members of an organization possessing an organizational climate of trust will spontaneously provide mutual assistance and support, will possess a high degree of

cohesiveness and team spirit, and will seek to satisfy the team to which they belong. According to Patterson et al. (2005), organizations emphasizing an organizational climate of trust will also seek to flexibly adjust relationships within the organization and in the environment; the organization will treat its employees well and emphasize employee growth and commitment, which will give employees a feeling of ownership and mutual trust.

### *Affective commitment*

Establishing an organizational cohesion that can influence organizational performance must depend on the ability of the organizational climate of trust to influence team members' affective commitment at the individual level. An organizational climate of trust may exist at different levels in an organization, and Kimberly & Evanisko (1981) identify group-level and organizational-level climates of trust. Although the individual represents merely one level of an organizational climate of trust, individuals' perceptions of the organizational-level climate are extremely important. Nonaka & Takeuchi (1995) emphasize the importance of team members in the establishment of an organizational climate of trust; according to their perspective, an organizational climate of trust can be considered a collective expression of individuals' perceptions. Because of this, when an organizational climate of trust has been established, it will diffuse to the individual level, and shape the perceived level of organizational support among existing and new team members. Nonaka & Takeuchi (1995) emphasize that an organization cannot establish an organizational climate of trust without the participation of individuals, and an organizational climate of trust will influence team members' perceived trust and organizational support (Alegre, Lapiedra, & Chiva, 2006; Teece, Pisano, & Shuen,

1997). This study consequently infers that an organizational climate of trust (at the organizational level) will have a positive influence on affective commitment (at the group level):

*Hypothesis 3:* Organizational climate of trust (at the organizational level) has a positive influence on affective commitment (at the group level).

### ***Affective commitment Encouraging Employee to Enhance Organizational Performance***

Affective commitment will influence organizational performance. According to past research (Podsakoff, MacKenzie, Paine, & Bachrach, 2000), many factors may influence organizational performance, including employee involvement (Boxall & Macky, 2009), interactive work structures (Frenkel & Sanders, 2007), and human resource flexibility within organizations (Beltrán-Martín, Roca-Puig, Escrig-Tena, & Bou-Llugar, 2008). Gelade and Ivery (2003) suggested that affective commitment represents the degree to which employees feel that organizational members share a harmonious atmosphere and emotional attachment, and will affect organizational performance. Because of this, Affective commitment will influence employees' dedication to the organization. Past research results indicate that Affective commitment indeed has a positive influence on organizational performance. Affective commitment represents employees' emotional response to their work environment and its characteristics. Affective commitment and organizational performance are mutually correlated, and Affective commitment will have a positive influence on organizational performance (Kuenzi & Schminke, 2009; Naumann & Bennett, 2000). We therefore infer the following:

*Hypothesis 4:* Affective commitment has a positive influence on organizational performance.

## **Method**

### *Sampling*

In order to analyze the correlation between internal and external human capital strategies, the organizational climate of trust, affective commitment, organizational performance, this paper will adopt primarily quantitative methods, collected the various data needed for analysis, and finally performed appropriate data compilation and statistical analysis tasks. With regard to quantitative research, this study will perform empirical analysis with financial service industry in Taiwan as its research subjects. Financial service companies are selected in Taiwan on the lists of Taiwan Stock Exchange (TSE) and traded over the counter (OTC). We will mail a survey packet to financial service companies. The packet includes a survey instruction used to explain the purposes of the survey and questionnaires. The responds by employees (anonymous questionnaires), is used to measure firm's human capital strategy and the climate of trust .We distinguish the organizational climate of trust and the affective commitment by the department/group codes.

### *Measures*

#### *1. Dependent Variables(Organizational Performance)*

Organizational performance was measured with a 6-item scale adapted from Venkatraman & Ramanujam(1986). Sample items includes 'Our firm generated a high level of dollar sales.' and 'Our firm maintained high level of current customer retention' For each item, employees were asked to assess the degree to which they

agreed from 1 (strongly disagree) to 5 (strongly agree) with each statement.

### *2.Independent Variables(Human Capital Strategies)*

The study includes two human capital strategies as independent variables. Internal human capital strategy was measured by 5 items from the study of Delery and Doty (1996), which assess internal career opportunities, and from the study of Collins and Smith (2006), which assess internal selection and career development practices. Example items include ‘Internal candidates are given consideration over external candidates for job openings’, ‘We provide clear career paths for employees’ and ‘We invest more hours in training programs than other competitors’. External human capital strategy was measured by 5 items from the prior studies (Snell & Dean 1992; Youndt & Snell 2004). Example items include ‘We will likely spend much money to obtain the best person’, ‘We pay much attention to employee selection process’ and ‘Our wages are very competitive for this industry’. Using a scale from 1 (strongly disagree) to 5 (strong agree), we asked employees at each service firm to rate each item of human capital strategies. We then averaged the responses within each firm to stand for their human capital strategy.

### *3.Mediating Variables(Climate of Trust and)*

The climate of trust was measured with a 4-item scale adapted from Lenard & Lane (2003). Sample items includes ‘There is a very high level of trust throughout this organization’ and ‘In this organization subordinates have a great deal of trust for managers.’ For each item, employees were asked to assess the degree to which they agreed from 1 (strongly disagree) to 5 (strongly agree) with each statement. The climate of trust was measured with a 7-item scale adapted from Meyer & Allen (1991).

Sample items includes 'I would be very happy to spend the rest of my career with this organization.' and 'I enjoy discussing my organization with people outside it.' For each item, employees were asked to assess the degree to which they agreed from 1 (strongly disagree) to 5 (strongly agree) with each statement.

#### *4. Control Variables*

A variety of difference factors may affect internal and external human capital strategies, the organizational climate of trust, affective commitment, organizational performance. Therefore, organizational tenure (organizational level) is included in the analyses because the variable may be related to the research factors (Tsui et al. 1997). Organizational tenure is obtained from Taiwan Stock Exchange (TSE).

## Results

### *The Measurement Model*

We tested the factor structure of our survey measure using Confirmatory Factor Analysis (CFA), a method developed to test whether the hypothesized latent variables can be identified empirically and to assess the validity and reliability of the measures.

First, based on the results of successive testing and modification of different models for the same data, different variable sets were combined in the final model. For this final CFA,  $\chi^2 = 281.98$ ,  $df = 125$  ( $\chi^2/df = 2.26$ ). The RMSEA index is 0.055. These results indicate an acceptable fit of the model to the data. Other indices also show acceptable fit: GFI = 0.93, CFI = 0.96, NFI = 0.93.

Finally, Confirmatory Factor Analysis (CFA) was used to examine the validity and

reliability of the test instrument. The procedure for assessing content validity, which involved operationalizing the constructs, was based on an extensive literature review and discussion of the questionnaire with superiors in organizations of the type used in our sample prior to determining the wording of the items. Second, the results of the CFA show that seven variables display convergent validity, as the analysis yielded seven factors with factor loadings displaying the expected patterns. Table 1 shows the correlations among these seven factors. The diagonal of the matrix presents the internal-consistency coefficients of the reliability of the unity-weighted sums of the item scores; the Cronbach  $\alpha$  coefficients vary between .70 and .88, exceeding the .70 threshold recommended by Hair et al. (1998). Thus, the reliability and internal consistency of the variables are confirmed.

Table 1. Correlations among the factors of the measurement model

Variable	1	2	3	4	5
1. Internal human capital strategy	1				
2. External human capital strategy	0.567**	1			
3. Organizational climate of trust	0.210**	0.283**	1		
4. Affective commitment	0.310**	0.383**	0.370**	1	
5. Organizational performance	0.273**	0.404**	0.256**	0.528**	1

N=410.

### *The Structural Model*

As the next step, path models were fitted to the data to test the proposed model. As the hypotheses do not explicitly specify the relations among all the factors and some unexpected relations were found, it was decided to test the fit of a sequence of models. The selection criteria for the final model were: (1) the fit to the data, and (2) the interpretability of the estimated relations.

The final path model yielded a test statistic of  $\chi^2 = 281.98$ ,  $df = 172$  ( $p = .00$ ). The

RMSEA index is 0.055 for this model, with a 90% confidence interval between 0.048 and 0.064, indicating acceptable fit of the model to the data. Other indices of fit were also found to be acceptable: GFI = 0.93, CFI = 0.96, NFI = 0.93. Thus, we cannot reject the hypothesis that the path model correctly reproduces the correlations among the latent variables. The final model is illustrated in Figure 1.

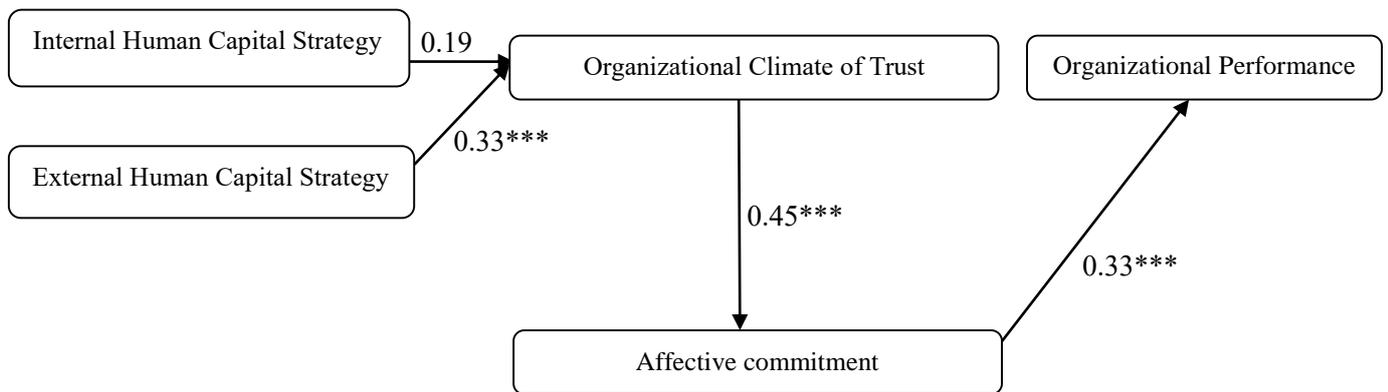


Figure 1 Hypothesized integrated model

The pattern of direct effects revealed by the path model provides mixed evidence in support of the study’s hypotheses. Based on Hypothesis 1, we expected a significantly positive direct relationship between internal human capital strategy and organizational climate of trust, and that is not what we observed (.19). Thus, Hypothesis 1 is not supported. Based on Hypothesis 2, we expected a significant positive effect of external human capital strategy on organizational climate of trust. The result from the path model (.33) supports this hypothesis.

The pattern of direct effects revealed by the path model provides mixed evidence in support of the study’s hypotheses. Based on Hypothesis 3, we expected a

significantly positive direct relationship between organizational climate of trust and affective commitment, and that is what we observed (.45). Thus, Hypothesis 3 is supported. Based on Hypothesis 4, we expected a significant positive effect of affective commitment on organizational performance. The result from the path model (.33) supports this hypothesis.

## **Discussion and Limitations**

### *Discussion*

This study seeks to determine how choice of internal and external human capital strategies can improve organizational performance via the organizational cohesion (organizational climate of trust and affective commitment), and thereby enrich the fields of strategic human resource management, organizational climate, and organizational performance. This study makes the following main contributions to these three areas:

- 1. *Strategic Human Resource Management*

This study remedies the failure of strategic human resource management to distinguish internal and external human capital strategies from the perspective of labor market theory.

2. *Organizational Climate*

This study explores organizational climate from a cross-level research perspective. While past research typically analyzed organizational climate from the perspective of a single level, this study adopts a cross-level perspective by examining

the relationship between organizational climate of trust at the organizational level and affective commitment at the group level.

### *3. Organizational Performance*

There has been little research in strategic human resource management concerning mediating mechanisms or processes. We therefore propose organizational cohesion (organizational climate of trust and affective commitment) as a possible third factor influencing organizational performance, and empirically verify this relationship.

### **Limitations**

This study took service industries in the Taiwan area as its research subjects; there are certain limitations on our ability to generalize the study's conclusions.

1. Because different industries have different contexts, we therefore recommend that future studies can target different industries for in-depth investigation, which should enable better generalization of research results to other contexts.
2. This study employed a questionnaire survey, which was implemented during only one specific period of time. This cross-sectional approach was not accompanied by a verifying long-term longitudinal survey examining changes over time. In view this research restriction, we recommend that a longitudinal approach be employed in future research.

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