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HRM professionals and their perceptions of HRM and firm performance in the Philippines

Teresita Audea, Stephen T.T. Teo and John Crawford

Abstract This paper reports the findings of a study conducted in the Philippines that examines the extent of adoption of human capital-enhancing human resource (HR) and industrial relations (IR) practices. Differences between locally owned and other organizations in these practices and their relationship to firm performance were also investigated. Questionnaire responses were obtained from managers and union representatives from 128 organizations located in the Philippines. The results indicated that there was, on average, a fairly high level of adoption of practices consistent with a strategic approach to human resource management (HRM), with foreign-owned firms tending to show a slightly higher level of adoption of such practices. A scale representing the adoption of a more conciliatory and union-friendly IR approach was found to be a significant predictor of perceived firm performance. Surprisingly, the level of strategic integration between HRM and business planning and most human capital-enhancing HR practices were not significant predictors of perceived firm performance. Research and practical implications in relation to the role of HRM in enhancing firm performance are discussed.

Keywords Strategic HRM; the Philippines; perceived firm performance.

Introduction

The strategic management of human resources (HR) in the Asia-Pacific has been the topic of many recent studies (Bae *et al.*, 2003; Benson and Rowley, 2003; Wan *et al.*, 2002), especially in the light of the recent Asian meltdown (Chen, 2001; Sharma, 2000). With a population of 78.4 million (of whom 30.9 million are in employment), the Philippines seems to have emerged from the Asian crisis with a slight growth in its gross domestic product of 3.9 per cent (Asian Development Bank, 2001a). The Asian Development Bank (ADB) (2001a) reported that manufacturing industry was at the forefront of the economic growth, as the result of strong demand for semiconductors and other high-technology products.

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According to a recent survey by BusinessWorld (2000), the largest proportion of the multinationals in the Philippines originates from the United States (28 per cent) and Japan (20 per cent). Total registered foreign direct investment (FDI) in the first quarter of 2001 amounted to PhP801.0M, which was down by 81 per cent compared to the same period in 2001 (National Statistical Coordination Board, 2000). Manufacturing industry absorbed the biggest share of registered FDI at PhP493.1M worth of investments, representing 62 per cent of the total investment while the trade industry claimed PhP216.3M or 27 per cent of these investments (NSCB, 2001). With the recent economic crisis in the region, Filipino firms have embarked on the path to recovery. A managerial challenge faced by firms in the South-East Asian nations is the shortage of skilled labour and the need for firms to compete successfully. HR development strategies have been adopted as a means to enhance organizational performance (Debrah *et al.*, 2000). This places a demand on firms to ensure that their human resource management (HRM) and industrial relations (IR) systems are well placed to assist in this quest. However, little research has been undertaken on how other developing nations, besides Japan and the newly industrialized economies, go about sustaining competitive advantage through their human capital.

Human resources have been proposed as one of the most important sources of competitive advantage in this global environment (Bartlett and Ghoshal, 1987). In Western nations, researchers have increasingly studied how HRM can be used to achieve and sustain competitive advantage (Becker and Huselid, 1998; Walker, 1994). Within the literature, this field of study is commonly known as 'strategic human resource management' (e.g. Wright and McMahan, 1992; Wright *et al.*, 1999).

The adoption of strategic HRM has been the subject of many recent studies. Wright and McMahan defined strategic HRM as 'the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals' (1992: 298). A characteristic of a strategic approach to HRM, compared with personnel management, is the linkage between HR and business strategies (Schuler, 1992; Ulrich, 1997) and its positive relationship with firm performance (Becker and Huselid, 1998; Delery and Shaw, 2001). Evidence of the economic impact of strategic HRM has been accumulating (e.g. Becker and Huselid, 1998; Huselid, 1995; Wright *et al.*, 2001a). Strategic HRM is about integration and adaptation and its main concern is to ensure that HRM is fully integrated with the strategy and strategic needs of the firm (e.g. Golden and Ramanujam, 1985; Schuler, 1992; Wright *et al.*, 1999). Its purpose is to utilize human resources more effectively *vis-à-vis* the strategic needs of the organization (Pfeffer, 1995; Schuler, 1992; Wright *et al.*, 1999).

The international HRM literature has highlighted the importance of understanding the dominant models of HRM in each country, prior to undertaking comparative HRM research (Boxall, 1995). Furthermore, little attention has been paid to examining the extent to which a strategic approach to HRM has been adopted in the Philippines. While there has been an increasing interest in the status of HRM in the Asia Pacific region (e.g. Bae *et al.*, 2003; Rowley and Benson, 2002), most of these studies tend to focus on countries other than the Philippines. Based on our review of the literature, most of the studies on the Philippines tend to be case-study based (Amante, 1995, 1997) and labour-relations focused (e.g. Erickson *et al.*, 2003; Kuruvilla, 1996).

Despite the growing literature in the field of international management, surprisingly little is known regarding the adoption of strategic HRM in South-East Asian firms, especially those less-developed nations, such as the Philippines. Similarly, there has been an increasing interest on understanding how Asian firms manage their HR and IR (Kuruvilla, 1996; Sharma, 2000). Although there is an emerging body of empirical

research on HR/IR management from the Philippines (e.g. Amante, 1997; Erickson *et al.*, 2003), these are largely based on a case-study approach, with little generalizability of the findings. With the recent Asian economic crises and organizational failures, there has been little empirical research to understand how firms, both Filipino and foreign-owned, adopt strategic HRM to make themselves more competitive.

The main aim in the current study is to examine the level of uptake of a strategic approach to HRM by firms in the Philippines and the extent to which this is related to perceptions of the firms' performances. Differences between locally owned and other organizations in their HR and IR processes will also be investigated. The format of the paper is as follows: first, we will briefly review the literature on strategic HRM; second, we will outline the research methodology. Finally, the findings are reported, together with a discussion of the theoretical and practical implications.

Strategic HRM and firm performance in the Philippines

The nature of HR and IR management in the Philippines has been characterized by a diverse range of internal and external environmental influences. Similar to the development of HRM in other countries (e.g. Bae *et al.*, 2003; Rowley and Benson, 2002; Ulrich, 1997), the people management function in the Philippines have begun to demonstrate features of HRM (Selmer and De Leon, 2000; Skene, 2003). Amante's (1997) study showed that Filipino firms tend to require their personnel managers to take an active role in strategic decision-making. It has also been argued that market competition has transformed the traditional functions of personnel managers from merely handling administrative functions of recruitment, discipline, compensation, employee welfare and records, so that the role has evolved into one which includes executive decision-making (Amante, 1997). Amante also showed that many new and bigger firms preferred to use the job title 'HR manager' instead of personnel manager. Recently, others, such as Selmer and De Leon (2000) and Skene (2003), have supported the earlier findings by Amante by providing additional empirical evidence supporting the evolution of personnel management to HRM in the Philippines.

Human capital, strategic HRM and firm performance

The relationship between HR practices and firm performance can be studied from several theoretical perspectives. Adopting a resource-based view of the firm (Barney, 1991), strategic HRM scholars (such as Bae *et al.*, 2003; Wright *et al.*, 2001a) have argued that effective management of HR is important as it can be used to sustain competitive advantage. Utilizing progressive and innovative HRM and IR practices is crucial for selecting, developing, motivating and retaining the requisite human capital (Becker and Huselid, 1998; Wright *et al.*, 1999).

Strategic HRM can also be examined by using a human capital perspective (Becker, 1993; Schultz, 1961). Youndt and his colleagues (1996) adopted a configurational approach to HRM (Delery and Doty, 1996) and they concluded that a key mechanism for harnessing the human capital is using appropriate HR practices to enhance firm performance (Snell and Dean, 1992; Youndt *et al.*, 1996). Specific examples of HR practices used by Snell and his colleagues include: selective staffing, training and providing equitable rewards. This is because the skills, knowledge and abilities possessed by the HR can provide economic value to organizations. Snell and Dean (1992) found that human capital-enhancing HR practices were positively correlated with the adoption of advanced manufacturing technologies. Similarly, Barney (1991) stated that, to increase productivity through human capital, firms need to harness the potential

contribution of the employees. This human capital must then be developed and managed as a core competence of the firm, with employees treated as a source of competitive advantage. Lado and Wilson (1994) posited that a decreased importance of traditional sources of competitive advantage has led to the increased significance of human resources as part of the organization's tangible resources with the potential for continuous organizational success. This is consistent with the resource-based theory of the firm which argues that organizations can develop a sustained competitive advantage only if its activities create value in a unique way, one that competitors cannot copy (Barney, 1991; Wright *et al.*, 1994, 2001a).

Drawing from the human capital and resource-based view perspectives, HR practices can be used to ensure that the skills, knowledge and abilities of core employees can be transformed into a source of competitive advantage (e.g. Arthur, 1994; Huselid, 1995; Wright *et al.*, 1999). Past conceptual and empirical research generally agrees on the importance of certain HRM practices in the determination of employee and organization-level performance. Arthur (1994) found that HR practices were related to scrap rates, productivity and employee turnover. Huselid (1995) found a substantial relationship with both employee turnover and firm profitability. Wright and his colleagues (1999) reviewed the relationships between various HR practices and firm performance. They found that there was substantial support for the relationship between HR practices and firm performance. Specifically, they found that appraisal and training were significantly related to workforce skills. Research has also demonstrated that higher levels of human capital among the employees of the firm can result in a higher level of productivity (Lee *et al.*, 2003; Parnes, 1984; Snell and Dean, 1992).

Delery and Doty (1996) argued that organizations which recognize and adopt such HR best practices will always result in greater organizational effectiveness. Moreover, to enhance performance, HR practices should have synergistic effects such that there is consistency within the configuration of HR practices and between HR practices and strategy (Delery and Doty, 1996). Becker and Huselid (1998) have reached a similar conclusion by arguing that a complementary HRM system can be understood by examining the clustering of HR practices. In their studies, Becker and Huselid (1998) found empirical evidence to support the notion that an HRM system could lead to better firm performance.

An HRM system increases organizational performance, develops and maximizes an organization's abilities (Huselid, 1995) and contributes to its continuous competitive advantage. The individuals working in the company become the source and basis for utilization of other resources. Thus, through an efficient HRM system, an organization's employees become essentially a strategic asset. They form a system of resources and rare abilities that cannot easily be copied or replaced, and that provides the company with its competitive edge (Harel and Tzafrir, 1999). The elements of a sound IR system are also closely linked to a progressive HRM system (Erickson *et al.*, 2003).

It has been shown that the industrial relations process is an important element of the HRM system in the Philippines (Erickson *et al.*, 2003; Kuruvilla, 1996; Skene, 2003). As noted by Erickson and his colleagues, 'the defining characteristic of Filipino IR is the adversarial nature of labour-management relations. This adversarial nature is rooted in an exceptionally legalistic approach that permeates every institution in the IR system, in particular, dispute settlement' (2003: 379). Research from the Philippines has shown that the level of unionization has an impact on the rate of innovation (Verma *et al.*, 1995). IR practices such as labour-management councils tend to be implemented in firms with a higher degree of unionization. With an increasing focus, from the 1970s, on export as a form of industrialization, Filipino manufacturing industry has adopted sophisticated

HR/IR management practices (such as quality improvement and employee involvement) to allow skill development in the automation of manufacturing industry (Verma *et al.*, 1995). Therefore, we expect that there is a perception that the adoption of strategic HRM systems will be associated with higher firm performance.

Hypothesis 1: Firms that adopt a more strategic approach to HRM will have higher levels of performance.

Similarities and differences in HRM systems

The issue of whether HRM/IR practices are converging or diverging within regional and cultural clusters continues to be the focus of recent studies. McCaughey and De Cieri (1999) argue that, while organizations are becoming more similar at the macro-level, that is with respect to characteristics that are associated with the socio-economic aspects of organization (e.g. structure-environment contingencies), and organizations continue to maintain culturally based dissimilarities at the micro-level, due to cultural differences which impact upon the outcomes of HRM/IR practices (e.g. Hofstede, 1991). Convergence theorists assert that cultural convergence, driven by the rapid spread of technology, globalization and international trade and finance, makes it possible for foreign-owned firms to apply relatively similar HRM practices across countries (Rowley and Benson, 2002; Gooderham *et al.*, 1999).

Leggett and Bamber (1996) argued that the historical and structural factors in the Philippines have resulted in a convergence of HR/IR management practices between foreign and local firms. For instance, due to the historical unrest of labour relations in the 1980s, there has been an increasing awareness of the importance of effective management of HR in the Philippines as a means to reduce industrial tension (Ofreneo, 1995). Foreign firms may seek to resemble local firms to compete more effectively in the local markets or to 'fit in' by imitating local practices. Empirical evidence from Ireland also showed that some of the IR practices used in foreign firms may be compelled to resemble local practice through coercive isomorphism as they have to comply with local laws and regulations (Geary and Roche, 2001). In the Philippines, there has been a tendency for foreign firms to localize their HR practices by emphasizing local standards and practices, as in compensation, hiring and recruitment (Amante, 1995). Others have also concluded that flexible compensation and more cooperative labour-management relations have been implemented in the Philippines as local firms have benchmarked the practices established in foreign firms (Erickson *et al.*, 2003).

HRM theorists, such as Delery and Doty (1996) and Pfeffer (1995), have provided empirical evidence that firms tend to emulate best practice firms in the choice of HR practices which associate with higher performance. This universalistic approach to HRM 'posit[s] that greater use of specific employment practices will always result in better (or worse) organizational performance' (Delery and Doty, 1996: 806). Amante's study of manufacturing firms in the Philippines demonstrates that Filipino firms imitated the human resource development practices of Japanese firms in order to emulate the success of Japanese firms in the 1980s (Amante, 1988). McGraw and Harley (2003) showed that there was some evidence to support the idea that both foreign and local firms in Australia are moving towards the uptake of a more strategic approach to HRM. Other studies (e.g. Debrah *et al.*, 2000; De Silva, 1998; Quibria, 1999; Standing, 1992; Wan *et al.*, 2002) have demonstrated that the performance of Asian firms is associated with human resource development practices. Therefore, there is an expectation that, in the

Philippines, indigenous firms will adopt similar HRM/IR practices to foreign firms.

Hypothesis 2: There are no differences in the IR practices of locally owned and foreign-owned firms in the Philippines.

Hypothesis 3: There are no differences in the adoption of strategic HR practices between locally owned and foreign-owned firms in the Philippines.

Method

Data collection

The data presented in this study were collected by means of a self-completed questionnaire given to management and labour delegates who attended the 3rd National Convention on Labor Management Cooperation (LMC) held on 25–6 October 2001 in Manila, Philippines. The national conference was co-sponsored by the National Conciliation and Mediation Board (NCMB), an attached agency of the Department of Labor and Employment in the Philippines. The convention was a biennial activity of the NCMB and the participants were management and labour representatives from organized firms nationwide (that is, organizations with unions and with collective bargaining agreements). We have chosen to focus on the Philippines because convergence theorists (such as Galang, 1999) have argued that Western managerial practices could be effectively transferred to the Asian setting. The Philippines has been criticized as being too 'Westernized to be Asian' (Romero, 1999: 211), and hence, is a good research setting to examine whether a Westernized conceptualization of HRM can be identified in the local context.

A total of 377 labour and management representatives across the fifteen different regions of the country attended the two-day convention. The questionnaires were given first, to the organization's HR person or, in the absence of such a person, to the most senior manager attending the convention. If no senior manager was present, it was given to someone with IR responsibilities within the organization. Of the 377 participants, 128 completed and returned the questionnaire at the end of the convention (a response rate of 33.9 per cent). Information on the identities of the organizations taking part in this research was not requested. First, for us to gain access to the conference attendees, the Department of Labor and Employment required that the survey would be confidential and anonymous. Also, having anonymous responses is an effective means of increasing survey response rates in the Asia-Pacific.

The sample comprised fifty-three (43.8 per cent) HR managers (their job titles included 'personnel officers', 'administrative officers' and 'HRD supervisors'), twenty-nine (24 per cent) labour or union representatives (union presidents/officers, shop stewards) and twenty-nine (24 per cent) in general management (general managers, branch managers, sales managers and legal services managers). Most of the respondents were male (eighty-three or 66.4 per cent). They have an averaged on-the-job experience of 9.85 years (range between 6.95 and 35 years).

The majority of respondents were from manufacturing industry (45.6 per cent). Ninety-nine individuals (79.2 per cent) were employed by firms with more than 50 per cent local ownership and seventeen (13.6 per cent) were employed by firms with 50 per cent or more foreign ownership. Size of organizations varied widely, ranging from a minimum of forty employees to a maximum of 13,000 employees. On average, organizations in our study have been operating for thirty-nine years, with no statistically significant differences between local and foreign-owned firms. Approximately 85 per cent of the respondent organizations were at least 50 per cent unionized, with the exception of two respondents who indicated that their organizations were non-unionized.

Measures

Respondents completed a self-administered questionnaire. This included demographic questions that obtained information on the background of the company (e.g. firm size and length of operations in the Philippines). These variables have been found to influence the adoption of HRM (e.g. Harel and Tzafrir, 1999; Wright *et al.*, 1999).

In the regression analyses predicting firm performances, we controlled for ownership differences in the adoption of HRM (McGraw and Harley, 2003) by using a dichotomous variable ('ownership') with 1 = majority local ownership (i.e. 50 per cent or greater local ownership) and 0 = other. Organizational size has been found to have an effect on the adoption of HRM. Larger firms are more likely to have the resources available for investing in strategic HRM (Snell and Dean, 1992). Small manufacturing firms have been found not to adopt a strategic approach to HRM as they lack the resource and management expertise in HRM (Duberley and Walley, 1995). Following Kimberley (1976), we controlled for 'size' by calculating a natural logarithm of the total number of employees.

Independent measures

Following the methodology used by configurational HRM researchers (e.g. Becker and Huselid, 1998; Delaney and Huselid, 1996; Youndt *et al.*, 1996), we were interested in examining the nature of HRM systems in the Philippines. We specifically asked the respondents to answer the questions by referring to the HRM systems used for the core workforce. The extent of adoption of HR practices that are indicative of a more strategic HRM approach was assessed by five scales. (Items comprising these and other scales used in the study are shown in the Appendix.) Four of these scales related to human capital-enhancing HR practices, adapted from Snell and Dean (1992) and Wright *et al.* (1999). They are: 'staffing' (eight items, $\alpha = 0.86$), 'training' (nine items, $\alpha = 0.92$), 'appraisal' (eight items, $\alpha = 0.88$) and 'compensation' (six items, $\alpha = 0.77$).

A further single scale related to IR practices, the 'industrial relations' scale (four items, $\alpha = 0.89$), adopted from Geary and Roche (2001), was also included. It examined the extent to which a more conciliatory and union-friendly approach to IR has been adopted. (Note: the α values given above are those obtained in the present study.) For all items comprising the above five HR and IR scales, respondents indicated their level of agreement that specified practices are in use, using a 5-point Likert scale (from '1' = strongly disagree to '5' = strongly agree).

In addition, a "strategic integration scale" was included, which measures the extent of linkages between HR planning and the strategic management process. This utilizes the framework developed by Golden and Ramanujam (1985) and subsequently used by others (e.g. Teo, 2000) to operationalize the concept of strategic integration. The framework builds on characteristics of the HRM function: for example, reactive versus proactive; integration of people strategies with business strategies; roles of the senior HR executives in strategic management. The advantage lies in the identification of four different levels of linkage between people management strategies and the strategic management process: (1) Level I: No linkage (administrative linkage); (2) Level II: One-way linkage (people management strategies influence business strategies or business strategies influence people management strategies); (3) Level III: Two-way linkage (reciprocal and interdependent relationship between people management and business strategies); and (4) Level IV: Integrative linkage (dynamic and multifaceted linkage). Each of the seven items in the framework contains four categorical statements, each describing a particular feature of integration between HRM and strategic management.

Each of these statements was then assigned a value from '1' (Level I) to '4' (Level IV) to reflect each strategic integration level. Respondents were requested to choose the statement which best described the state of strategic integration. A composite scale 'strategic integration' ($\alpha = 0.88$), was calculated by averaging these scores, similar to the procedure used in Teo (2000).

Dependent measures

Although perceptual data introduce limitations through increased measurement error and the potential for monomethod bias, it was not unprecedented to use them to measure firm performance (Delaney and Huselid, 1996). Furthermore, previous research has established that it is appropriate to use perceptual performance measures in the Asian context when objective measures are not available (Subramanian *et al.*, 1994). In the current study, the three perceptual measures of firm performance were adopted from studies conducted in Asia (Park and Luo, 2001; Xin and Pearce, 1996). Respondents were asked to evaluate their organizations' performance, as compared to competitors, in relation to technological skills, managerial and organizational skills and the firm's performance during the past year. The items are based on a 5-point Likert scale (ranging from 1 = not successful to 5 = very successful).¹ We combined the three items to form a composite 'firm performance' indicator ($\alpha = 0.74$).

Control measures

A review of the literature on strategic HRM suggests that a variety of conditions in the external and internal organizational environments influence both HRM activities and firm performance (e.g. Dowling *et al.*, 1994; Galang and Ferris, 1997; Wan *et al.*, 2002). Following the research by Wan and his colleagues (Wan *et al.*, 2002), we controlled for three organizational variables in the statistical analyses. We controlled for the effect of firm experience by creating a natural logarithm of the number of years for which the company has been operating in the Philippines ('operational length'). Industry differences have an impact on the degree of HRM sophistication, as demonstrated by Amante (1988) in the Philippines. We controlled for industry differences by creating a dichotomous variable, 'Industry', whereby 1 denotes industrial industries and 0 denotes service and other industries. This is because research has indicated that industrial firms adopt different HR practices from firms in service industries (Amante, 1997; Skene, 2003).

Local institutions such as trade unions have been shown to have an impact on the choice of HR practices (e.g. Erickson *et al.*, 2003; Kitay and Lansbury, 1997). In the Philippines, the relative weak position of the trade union in the electronics industry has resulted in organizations adopting union avoidance strategies such as the refusal to bargain (Erickson *et al.*, 2003: 386). Similarly, in manufacturing industry there have been examples of companies closing down their operations in the Philippines (e.g. Mattel) in favour of relocation to cheaper industrial sites in Indonesia and Thailand (Erickson *et al.*, 2003: 388). The influence of the trade unions in these companies has been significantly weakened. Therefore, we controlled for trade union influence. To this end a control variable was formed, reflecting the influence of unions, by calculating the average of three questions relating to the presence of union, the number of bargaining units within the organization and the number of disputes over the last twelve months.

In addition to the above control variables, we also controlled for perceptual differences in HRM evaluation by individuals from different functional roles (e.g. Wright *et al.*, 2001c). Wright and his colleagues have demonstrated that multiple stakeholders of

the HRM function do not always have the same perceptions when asked to evaluate the effectiveness of HR departments. For example, HR managers tend to evaluate themselves much more favourably than do line managers. Hence, we create a dichotomous variable, 'function', to control for differences in job function between HRM/IR and non-HRM responsibilities.

Validity and reliability

Since we collected information regarding dependent and independent measures from single respondents, it is not possible to eliminate the possibility that the observed relationships between them are due to common method variance. However, as suggested by Podsakoff and Organ (1986), we conducted the Harman's ex-post one-factor test as a means of evaluating the possible influence of common method variance. In the current study, unrotated factor analysis of the variables used in the study resulted in five factors, with the first factor explaining only 31 per cent of the common variance. This provides some confidence that common method variance is not an important factor in producing the observed correlations.

Results

Scale scores for each of the six scales described above were calculated as the mean rating for the items comprising each of the scales. In order to investigate the relationship between the performance measures ('technological skills', 'managerial and organizational skills', 'past year performance' and 'firm performance') and HRM systems, correlations were calculated between the firm performance measures and the six scales described above (reported in Table 1). All correlations were positive, ranging from 0.10 to 0.89. The 'industrial relations' scale showed the highest correlations with firm performance (correlations of 0.27, 0.45, 0.38 and 0.55, for the four items respectively). However, other scales also showed significant correlations with the performance measures. Partial correlation analyses, controlling for organizational variables, were also calculated. These were consistently slightly higher than the zero-order correlations described above, and followed the same pattern.

An examination of mean scale scores indicated that the scores were consistently above the mid-point of the five-point scale. These results suggest that Filipino firms have adopted human capital-enhancing HR practices to a fair extent in staffing (mean = 3.49; SD = 0.75), training and development (mean = 3.47, SD = 0.80), performance appraisal (mean = 3.50, SD = 0.68) and compensation (mean = 3.40, SD = 0.65). Respondents also agreed that they have adopted a number of cooperative IR practices (mean = 4.04, SD = 0.78), including recognition of trade unions (mean = 4.02, SD = 0.88), allowing collective bargaining with unions (mean = 4.23, SD = 0.80) and using government-provided IR machinery to resolve disputes (mean = 3.96, SD = 0.87).

Regarding the 'strategic integration' scale, a mean score of 2.71 was obtained. Using the formulae described by Teo (2000), this score indicates a relatively high level of linkage between HRM and the business planning processes, consistent with the 'Type II Linkage' proposed by Golden and Ramanujam (1985). Detailed examination of the individual items making up this scale indicated that firms in the Philippines have adopted a strategic perspective towards the management of their HR and the HRM function. However, the evidence suggests that the mean values of items related to the role and the effectiveness of the HR department are not as high, when compared to the other items in the scale.

Table 1 Descriptive statistics and partial correlation coefficients controlling for organizational level variables^a

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Log size	6.08	1.29															
2 Log life	3.41	.66	.03														
3 Industry	.48	.50	-.03	-.30**													
4 Union influence	1.72	3.90	.12	.07	.07												
5 Job function	.30	.46	.16	.30**	-.34***	.02											
6 Ownership	.79	.41	-.05	.14*	-.35***	.10	.03										
7 Staffing	3.49	.75	.07	-.14	-.11	-.09	.05	-.13									
8 Training	3.47	.80	.08	-.28**	.05	-.18	.05	-.13	.74***								
9 Appraisal	3.50	.68	-.04	-.11	-.08	-.10	.09	-.21*	.84***	.72***							
10 Compensation	3.40	.65	.10	.03	-.03	-.28**	.04	-.09	.52***	.61***	.57***						
11 Ind. relations	4.04	.78	.09	-.01	-.06	.02	.05	.13	.49***	.37***	.37***	.34***					
12 Strat. integration	2.71	.62	.00	-.01	-.02	-.19*	-.12	-.14	.50***	.44***	.50***	.34***	.27**				
13 Mgt & org. skills	3.53	.88	.25*	-.02	-.01	.14	.045	-.09	.50***	.36***	.43***	.25**	.45***	.27**			
14 Tech. skills	4.10	.94	.26**	.01	.04	.06	-.03	.03	.10	.23*	.12	.23*	.38***	.06	.38***		
15 Past perf.	3.66	.88	.26**	-.04	.05	.13	.14	-.09	.34***	.26**	.28**	.25*	.55***	.11	.70***	.45***	
16 Total perf.	3.77	.74	.32**	-.21	.03	.13	.06	-.06	.38***	.35***	.34***	.30**	.56**	.18	.84***	.76***	.89***

Notes^aOrganizational level variables include organizational size, period of operation, functional level of respondents, industry and level of union influence.* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed level).

In the first instance, we conducted a multivariate analysis of variance (MANOVA) with ownership as the dependent variable to examine the similarities and differences in HRM and IR systems between firms with majority local ownership and those with foreign ownership (hypotheses 2 and 3). The following organizational variables were used as control variables and were entered as covariates in the MANOVA analysis: firm size, length of operation, job function of respondents, degree of union influence and industry.

Results of the MANOVA test showed that there were statistically significant differences (Wilks' Lambda = 0.493, $F = 16.816$, $p < .001$) in the adoption of HRM systems between indigenous firms and those firms with foreign ownership (see Table 2). Univariate analyses showed that foreign-owned firms were more likely to report a higher mean value for human capital-enhancing HR practices in 'training' ($F = 2.449$, $p < .05$). Surprisingly, there were no statistically significant differences in IR practices between local and foreign-owned firms.

We then used a series of hierarchical regression analyses to investigate the effect of the strategic approach variables on each of the dependent firm performance variables (hypothesis 1). For each of the regression analyses, five demographic variables were entered as control variables in the first step. The six strategic approach variables (staffing, training, appraisal, compensation, IR and strategic integration) were entered in the second step. For each of the dependent variables, the influence of the strategic approach variables after controlling for the organizational characteristics is given by the change in R-square value. The results are reported in Table 3.

For each of the dependent variables, on the first step with only the organizational variables in the equation, the only variable with a statistically significant effect on the dependent variables was firm size. After entering the remaining variables into the equations, statistically significant increases in R square were observed for each of the three performance variables. The first regression model was to examine the effects of HRM systems on the composite firm performance measure. The final model showed that firm size ($\beta = 0.30$, $p < .01$) and 'industrial relations' ($\beta = 0.50$, $p < .001$) were both statistically significant predictors of firm performance.

To examine the effect of HRM systems on the individual performance items comprising 'firm performance', that is 'technological skills', 'managerial and

Table 2 Mean scales scores for locally and other owned firms^a

Variables	Local (L)	Other (O)	Effect	F	Sig. level
Staffing	3.43 (.75)	3.68 (.73)	O > L	1.52	n.s.
Training	3.42 (.79)	3.67 (.76)	O > L	2.45	*
Appraisal	3.43 (.69)	3.78 (.51)	O > L	2.06	**
Compensation	3.37 (.66)	3.51 (.55)	O > L	1.88	**
Industrial relations	4.10 (.69)	3.84 (1.01)	L > O	.58	n.s.
Strategic integration	2.66 (.63)	2.88 (.52)	O > L	1.37	n.s.

Notes

Standard deviations enclosed within parenthesis.

L = includes 100 per cent locally owned and predominantly Filipino-owned firms.

O = includes 100 per cent foreign-owned, predominantly foreign-owned and 50–50 joint venture firms.

^aMANOVA controlling for organizational size, period of operation, functional level of respondents, industry and level of union influence.

** $p < .10$; * $p < .05$ (two-tailed level).

n.s. = not significant.

Table 3 Results of regression analysis

	Total performance		Technological skills		Mgt and org. skills		Past year performance	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
<i>Step 1: Control</i>								
Firm size (log)	.30**	.27**	.28**	.25**	.23*	.22*	.23*	.18*
Operational length (log)	-.09	-.02	-.01	.05	-.09	-.01	-.11	-.10
Union influence	.10	.11	.02	.06	.12	.12	.11	.11
DV industry	-.03	.01	.02	-.04	-.10	-.01	.06	.09
DV job function	.01	-.04	-.07	-.14	-.01	-.05	.16	.13
DV ownership	-.03	-.07	.06	-.02	-.09	-.04	-.06	-.11
<i>Step 2: Independent</i>								
Staffing		-.16		-.52**		.15		.10
Training		.10		.33*		-.03		-.13
Appraisal		.25		.21		.28		.07
Compensation		.02		.05		-.07		.10
Strategic integration		-.06		-.07		.01		-.05
Industrial relations		.50***		.42***		.29**		.49***
R ²	.11	.44	.08	.29	.09	.38	.12	.42
ΔR ²	–	.33	–	.21	–	.29	–	.30
Adjusted R ²	.06	.37	.03	.20	.03	.30	.07	.34
F-value	2.12	6.21***	1.48	3.33***	1.61	4.80***	2.30	5.65***

Notes

n = 125 managers.

* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed level).

Three dummy variables created for industry type (industrial versus services), job function of respondents (HRM/IR versus other), ownership (100 per cent local versus majority with non-Filipino ownership).

organizational skills' and 'past performance', three regression analyses were conducted. Results showed that the effect of 'industrial relations' was found to be statistically significant (β values = 0.42, 0.29 and 0.49, respectively). For the dependent variable 'technological skills', staffing practices and training practices were also found to have statistically significant effects (β values = -0.52 and 0.33 respectively).

The relatively high negative β value for effect of 'staffing' on 'technological skills' ($\beta = -0.52$) was not expected. (This is despite the existence of a small positive zero-order correlation of 0.10 between these two variables.) This could possibly be explained as a result of sampling error, together with multicollinearity resulting from the correlation between 'staffing' and the other independent variable, 'training' ($r = .74$).

Discussion and conclusions

In the current study we set out to examine the extent to which Filipino firms adopt HRM systems as a means of enhancing firm performance during the recent Asian crisis. Hypothesis 1 was only partially supported as we did not find any association between human capital-enhancing HR practices and firm performance. The second hypothesis was supported as the result from the MANOVA showed that both indigenous and foreign firms adopted similar IR practices in the Philippines. However, results from the univariate analyses showed that indigenous firms tend to demonstrate a higher level of agreement for using human capital-enhancing HR practices in staffing, training, appraisal and compensation. There was no statistically significant difference in the integration between HR and business planning. Therefore, there was only partial support for hypothesis 3.

In general, the results indicated that larger firms tend to be more associated with higher level of overall firm performance. In addition, firms which adopted union involvement IR practices are associated with a higher level of overall firm performance. Surprisingly, human capital-enhancing HR practices were not associated with a higher level of overall firm performance.

Detailed examination of the association between HRM systems and firm performance indicated that training and development practices were the only human capital-enhancing HR practices that were associated with higher level of technological skills in the core workforce. This study has provided evidence that, after the Asian economic crisis, Filipino firms have adopted training practices as a way to improve the level of technological skills among core workforce, as a strategic move to make themselves more successful than their competitors.

Our findings provide support for the importance and influence of IR systems, processes and structures in the Philippines. IR in the Philippines heightens the importance of the basic concept of information sharing, consultation and two-way communication. The effectiveness of the procedures and systems which are established for better information flow, understanding and, where possible, consensus-building is critical to the successful managing of enterprises and for achieving competitiveness. The present trend in labour relations and HRM is on placing greater emphasis on employee involvement, harmonious employer–employee relations and on practices which promote them. This effectively supports the notion that IR and HRM are two facets of the people management function and could be managed strategically in order to sustain competitive advantage (Erickson *et al.*, 2003).

The relationship between comprehensive training practices and technological skills is of particular relevance to the Philippines as firms faced the challenge of increasing their competitiveness by investing in HR development (Rouhi, 1996; Standing, 1992). In order

to cope with these changes in technology in industries such as manufacturing, Filipino firms have to rely on becoming a 'human resource enterprise' in order to stay competitive (Quibria, 1999). This is achieved by investing in comprehensive training practices.

Our findings support previous findings in the literature (Snell and Dean, 1992) and indicate that Filipino firms have adopted a strategic approach to people management as the means of recovering from the Asian crisis. This is not a surprising finding because the experience of the Philippines with its emphasis on HR development is similar to that of other Asia Pacific Rim countries (Debrah *et al.*, 2000; Lasserre and Probert, 1996) as they have undergone a period of managerial reform. Manufacturing firms have adopted a number of strategies, such as just-in-time and other advanced manufacturing techniques, as a way to become more competitive in the international market (Snell and Dean, 1992). Concurring with scholars such as Snell and Dean (1992), we conclude that the adoption of these strategic initiatives is related to the adoption of strategic HRM and those practices that focus on the creation of the human capital (that is, skills, experience and knowledge) required for mastering the new production techniques. These HR practices provided the tool for firms to acquire and develop the human capital pool to operate within the challenging economic environment, thus contributing to the value of the firm (Schultz, 1961; Snell and Dean, 1992).

Our study reveals a significant relationship between IR practices and firm performance. Thus, managers should give special attention to harmonizing labour-management relations (Erickson *et al.*, 2003) as the means to enhance firm performance. A more consultative approach to IR needs to be developed, going beyond including traditional objectives such as distributive justice. Such a perspective would need to place less emphasis on standardization and to espouse productivity and competitiveness (De Silva, 1997; Erickson *et al.*, 2003).

There are several practical implications. That is, as Asian firms recovered from the Asian economic crisis and the challenge of attracting human capital pool, Filipino firms have chosen selective staffing practices to develop skills, knowledge and abilities. This finding is consistent with the economic development initiatives of the Philippines (Asian Development Bank (ADB), 2001b). The ADB (2001b) has recently reported that investment in human (and physical) capital has a critical role in stimulating economic development, especially in building up the nation's reserves in telecommunications infrastructure and computer literacy programmes (ADB, 2001b: 41). This is particularly crucial for the nation as its export of manufactured goods tends to be in high-technology-related products (The World Bank, 1999). To maintain and sustain their global competitiveness, Filipino firms have to build up their base for future export growth (The World Bank, 1999: 7) and investment in human capital will be one such avenue.

Our finding also suggests that there is a convergence in the linkage between HR and business planning between local and foreign-owned firms. This finding provides support for the perception that the people management function in the Philippines is becoming more strategic, similar to the trend observed in other countries (e.g. Bae *et al.*, 2003; Ulrich, 1997). This finding strongly supports the notion that Filipino HR practitioners (and line managers) are aware of the importance of linking HR with business planning as the means of incorporating HR implications into the process of strategic management (e.g. Golden and Ramanujam, 1985; Ulrich, 1997). This finding is similar to the overall finding reached by Benson and Rowley (2003) where they commented that there is some evidence to suggest that Filipino personnel managers are aware of their strategic role within the organizations. Our finding also lends support to Selmer and De Leon (2001), which states that the people management function in the Philippines has been evolving from personnel management to a more strategic HRM approach. To adopt a more strategic approach, HR practitioners need to develop their professional and technical skills and

competencies in order to have an impact on the effectiveness of the HR department (Huselid *et al.*, 1997; Ulrich, 1997). The reputational effectiveness of the HRM function can provide the opportunity to market the professionalism of the HRM function. This business partnership role is also consistent with developments in other countries (Bae *et al.*, 2003; Benson and Rowley, 2003; Huselid *et al.*, 1997; Ulrich, 1997).

Limitations

The current study has a number of limitations which means the findings should be interpreted with some caution. The small sample size, especially in relation to the non-randomness of sample selection, means that the result lacks generalizability. However, given the difficulty of conducting research in the Asian region (see Subramanian and Gopalakrishna, 2001), especially in getting a sufficient level of response rate when using a questionnaire survey methodology, we had to compromise on certain aspects of validity and reliability.

While the current study relied on single respondents (see the limitations discussed in Wright *et al.*, 2001c), we have taken several steps to ensure validity and reliability. First, our questions did not focus on attitudinal matters; instead, we asked the respondents to report on issues of a more factual nature, related to the presence or absence of certain processes in their organizations. Second, we conducted the Harman's one-factor test to check for common method variance (Podsakoff and Organ, 1986), which resulted in a five-factor solution. Our analysis provided some support that our findings are not significantly affected by the problem of common method variance.

Another limitation is related to the way we asked our respondents to comment on the HRM systems within their organization. As remarked by Lepak and Snell (2002), the strategic HRM literature has been criticized for over-generalizing the impact of HRM system on firm performance by grouping all employees, whether core or peripheral, into a single category (Delery and Shaw, 2001), especially as firms adopt bundles of HR practices according to different type of HR configuration such as contract work (Lepak and Snell, 2002). Given the shift to part-time work and contract employment in the Asia-Pacific context (Erickson *et al.*, 2003; Skene, 2003), it is crucial that future research focuses on the HR bundles used to manage these types of workers and clearly differentiates between core and peripheral employees.

Future research should collect data at the organizational level so that subjective and objective performance indicators can be used in the analysis. Future study should also collect the independent and dependent variables from different respondents in order to minimize common method bias (Harel and Tzafrir, 1999; Podsakoff and Organ, 1986; Wright *et al.*, 2001b). We have sacrificed this aspect, as we wanted to maximize our response rate as the conduct of survey research in Asia has usually resulted in small response rates (Subramanian and Gopalakrishna, 2001).

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Note

- 1 Since several commentators on Asian affairs have argued that a key issue for most Asian countries in recovering from the Asian crisis is its human resource development (e.g. Asian Development Bank, 2001a, 2001b; Debrah et al., 2000), we decided to operationalize one of the dependent performance measures to measure the level of managerial and organizational skills in the Philippines. The choice of the second dependent measure, technological skills, was chosen to reflect the importance of using technological skills as a means of enhancing firm competitiveness in the Philippines (Quibria, 1999).

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Appendix 1: items used in the survey

The following statements describe human resource management and industrial relations practices using the scale of 1 = strongly disagree to 5 = strongly agree.

Staffing (adapted from Snell and Dean, 1992; Cronbach's $\alpha = 0.86$)

- 1 My company adopts very extensive selection processes (e.g. uses tests, interviews, etc.)
- 2 Management gives a great deal of importance to staffing processes to select the best person for the position
- 3 More than five persons are involved in making a selection decision
- 4 Generally, my organization takes a long time to select someone for a position from the time the position becomes open
- 5 We screened twenty or more applicants for each vacant position
- 6 We select managers by matching managerial characteristics with the strategic plan of the organization
- 7 We believe in the need to identify effective managerial characteristics for long-term operations
- 8 We occasionally change staffing patterns in order to help implement business or corporate strategies

Training (adapted from Snell and Dean, 1992; Cronbach's $\alpha = 0.92$)

- 1 We have very extensive training programmes for members in all work units
- 2 Management gives a great of priority to training initiatives
- 3 The training processes are very structured

- 4 A typical employee receives, on the average, 48 hours of formal training per year
- 5 During the past year, 100 per cent of employees received training
- 6 Management allocates and spends a great deal of money for training
- 7 We provide pay rates 20 per cent more than the other competitors in the industry
- 8 We provide a wide variety of training programmes for staff
- 9 I feel that training is viewed as an investment

Performance appraisal (adapted from Snell and Dean, 1992; Cronbach's $\alpha = 0.88$)

- 1 My organization provides a great deal of effort in measuring employee performance
- 2 We use flexible performance standards
- 3 Our employees greatly participate in goal-setting and appraisal
- 4 Our managers/supervisors regularly discuss with employees their individual performance
- 5 We place a great deal of emphasis on an employee's personal future development in discussing their performance
- 6 Key personnel are evaluated based on their potential for carrying out strategic goals
- 7 Pay rise, promotions, training and development, and other rewards are very closely linked to performance appraisal
- 8 Only one person provides input to the performance evaluation of each employee

Compensation (adapted from Snell and Dean, 1992; Cronbach's $\alpha = 0.77$)

- 1 We provide higher pay rates when compared to other organizations within the same industry
- 2 Compared to past years, this year's pay level in my organization is generally higher
- 3 My company very closely links pay with individual performance
- 4 The compensation programme is occasionally modified to encourage employees and managers to achieve long-term objectives
- 5 There is a great deal of difference in pay across members
- 6 We provide a profit-sharing policy and flexible bonus scheme

Strategic integration (adapted from Golden and Ramanujam, 1985; Teo, 2000; Cronbach's $\alpha = .79$)

Please select THE statement which BEST describes the contribution of the HRM department in strategic decision making:

- 1 Which of the following statements explain your organization's main motivation for integrating HRM/IR strategies with organizational strategies?
 - (A) No motivation for integration
 - (B) Failures in the implementation of HR/IR strategies
 - (C) Senior management supports the integration of people issues in organizational strategies
 - (D) Organizational philosophy or future growth considerations
- 2 What is your organization's view towards its human resources?
 - (A) People are treated as cost or as insignificant to business
 - (B) People are treated as a flexible variable
 - (C) People are treated as a key success factor for the business
 - (D) People are treated as a key success factor and an investment in future growth of my organization
- 3 What is your organization's view towards its HRM/IR function?
 - (A) Necessary but a burden
 - (B) Resource assistance in implementation of business plans
 - (C) Essential to business
 - (D) Critical to organization's effectiveness

- 4 What is the primary role of the senior HRM/IR executive in the organization?
 - (A) Functional administrator
 - (B) Operational – tactical HRM/IR expert
 - (C) Strategic partner of line management and working hand-in-hand
 - (D) Integral senior management member on a formal and informal basis
- 5 What is the primary role of the HRM/IR function in your organization?
 - (A) Efficient administration of HRM/IR programmes
 - (B) Development of HRM/IR systems or programmes to implement business objectives
 - (C) Development and implementation of HRM/IR strategies in concert with business planning
 - (D) HRM/IR expert with input in most business matters
- 6 Which of the following statements best describe the effectiveness of your HRM/IR function?
 - (A) Cost minimization, effective fire fighting
 - (B) Effective strategy implementation, financial impact on business
 - (C) Quality input of people related issues in formulation and implementation of organizational strategies
 - (D) Long-term impact on organization
- 7 What are the triggers for HRM/IR programmes or systems?
 - (A) Efficiency needs
 - (B) Business goals considered first
 - (C) Business goals and employee needs considered jointly
 - (D) Part of organizational goals to integrate employee needs with business objectives

Industrial relations (adapted from Geary and Roche, 2001; Cronbach's $\alpha = 0.89$)

- 1 Union(s) is/are greatly recognized
- 2 We allow collective bargaining with the recognized union(s)
- 3 We have a functional grievance procedure that helps in fostering harmonious relations within the workplace
- 4 We utilize the government-provided machinery to resolve disputes