

**INTERACTIVE EFFECTS OF VERTICAL FIT AND
LINE-OF-SIGHT ON THE ORGANIZATIONAL
PERFORMANCE**

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PERFORMANCE**

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A thesis submitted in partial fulfillment of the requirements for the Degree of Master of
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FORWARDING SHEET

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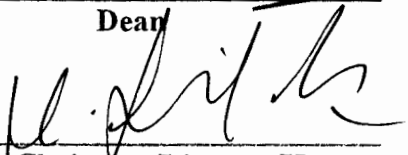
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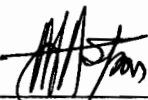
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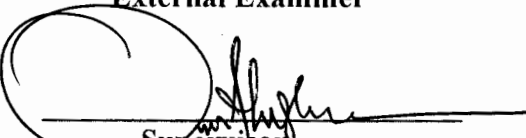
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ABSTRACT

The purpose of this study was to examine the impact of vertical fit on the organizational performance and to investigate the interactive effects of vertical fit and line-of-sight on the organizational performance in the service industry of the developing economy, Pakistan.

The constructs of Conant, Mokwa and Varadarajan (1990), Delery and Doty (1996), Armstrong and Foley (2003) and Green (2002) have been used for measuring the business strategy, HR strategy, line-of-sight and organizational performance respectively. This study highlighted the importance of vertical fit and line-of-sight on the organizational performance by analyzing the data collected from the sample of 109 business/HR executives and general employee through convenience sampling technique.

Major findings of this research study indicated that the vertical fit between business and human resource strategies has positive and direct impact on the organizational performance whereas line-of-sight further strengthened the relationship between vertical fit and organizational performance. This study confirmed that vertical fit can enhance the organization's competitiveness and line-of-sight could moderate the relationship between vertical fit and organizational performance.

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DECLARATION

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have prepared this thesis entirely on the basis of my personal effort made under the sincere guidance of my supervisor.

No portion of the work, presented in this thesis, has been submitted in support of any application for any degree or qualification of this or any other university or institute of learning.



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LIST OF ABBREVIATIONS

BS	Business strategy
HR	Human resource
HRM	Human resource management
LOS	Line-of-sight
Mod_LOS	(Vertical fit * LOS) Moderation impact of Line-of-sight
Org_Perf	Organizational Performance
Org. age	Organizational age
P-O	Person-organization
ROI	Return on investment
ROS	Return on sales
SHRM	Strategic human resource management
SKA	Skill, knowledge and ability
Std. Dev	Standard deviation
Tot_Emp_No	Total employee experience
Tot_Emp_work exp	Total employee work experience

CHAPTER 1

INTRODUCTION

CHAPTER 1

INTRODUCTION

This is an era when organizations have started relying increasingly on intangible assets for gaining competitive advantage. The journey of resource tangibility to resource intangibility started from the resource-based view and then moved on to competency-based view, knowledge based view and lastly to relational-based view (Stadler & Hinterhuber, 2005). So this scenario diverted many researchers' attention towards the strategic role of human resource management. SHRM is a combination of supportive business and human resource strategies, which are intended to be rare, valuable, inimitable and non-substitutable for gaining competitive advantage (Colvin & Boswell, 2007; Barney, 1991). Thus, when HR management practices are properly aligned with organization business strategy then actually employees can play strategic role in meeting the business objectives (Lengnick-Hall *et al.*, 2009) in the form of better firm's performance, effectiveness, productivity, financial returns and less turnover (Huang, 2001).

The vertical fit asserts linkage/alignment between firm's human resource practices and strategic management process (Wei, 2006; Delery & Doty, 1996). Human resource management practices increase employees' motivation level and make their behaviors consistent with business strategy for better organizational performance (Delery & Doty,

1996). Moreover, applying the concept of the vertical fit helps firms to manage their resources more efficiently, so that they can reduce operational costs as well as gain insight into environmental threats and new opportunities (Bird & Beechler, 1995).

1.1. Background to the study

The work of Miles, Snow, Meyer and Coleman (1978) had initially established the relational concept between business strategies, which consists of certain identifiable and exclusive characteristics, and specific human resource attributes. They not only identified the four main business typologies (prospector, defender, analyzer and reactor) but also presented three main approaches of management to handle different requirements of business strategies. This had actually circulated the idea among researchers that how strategy types and human resource management approaches might be connected to work with each other in proper mechanism. Tichy, Fombrun and Devanna (1982) used the term of "strategic human resource management" first time as a rational approach at the University of Michigan and this idea was further established by (Fombrun, *et al.*, 1984). Early studies (Burton et al., 2006) have theoretically focused on the individual human resource practices and their behavioral perspectives in competing world, ignoring a large number of contingency factors. During the last three decades a growing number of researchers (Huselid *et al.*, 1997; Pfeffer, 1994; Schuler & Jackson, 1987) have claimed that the human resource is an organization's most important property and proper management of these resources can slowly but surely contribute to sustainable competitive advantage of organizations.

Early research work (Schuler, 1988; Schuler & Jackson, 1987) of mid-1980's still dominates the strategic human resource management literature, particularly in providing the theoretical background. Many theories reigned strategic human resource management field from establishing phase to a much established phase of today. In mid 1980s and early 1990s, many macro-level organizational theories from the fields of behavioral sciences, finance, and economics were taken as foundation for the development of SHRM theory (Wright & McMahan, 1992). One of the popular theoretical models used for SHRM was "behavioral model", which took employee behavior and attitude as mediator between business strategy and organizational performance (Schuler & Jackson, 1987). Schuler and Jackson (1987) proposed that various human resource practices could be used for bringing out those expected attitude and behavior from employees which could be essential for implementing organizational strategy. Then in early 1990s, based on Mowday (1985) research work, Wright and Snell (1991) applied open system (input, throughput, and output) theory to strategic human resource management for generating HRM strategies. They were the ones who considered employees' skills, knowledge and abilities (SKAs) in their proposed system, which were previously ignored by behavioral perspective of SHRM. Wright and Snell (1991) anticipated that human resource systems are composed of employee competencies (SKAs) as input, employee behavior as throughput and productivity and job satisfaction as output. The main focus of Wright & Snell (1991) was on the proper harmonization among model components through various HR practices . Then Snell (1992) presented hybrid model of SHRM, consisting of system theory (Mowday,1985) and behavioral theory into what he termed as "Control theory" view of SHRM. He brought together HRM practices into three types of control systems:

(a) behavior control, (b) output control and (c) input control. He examined the executives' controls in organizations. According to his results, executives sought input control through selection and training, behavior control through behavior-based appraisals and reward system, and output control through outcome-based appraisals and reward system. The work of Wright and Snell (1991) considered what is now referred as human capital perspective (Lengnick-Hall *et al.*, 2009). Wright and McMahan's (1992) work clearly emphasized on human resource as human capital. They presented six theoretical models in their research; behavior theory, cybernetic models, agency/ transaction cost theory, the resource-based view of the firm, power/resource dependence model and institutional theory. Although all these models belonged to other fields of study but they laid a strong foundation in supporting SHRM research. Simultaneously, resource-based theory was in its early phase of establishment and receiving significant amount of attention in strategic management literature. Applying resource-based theory to SHRM was containing great potential for future research (Wright & McMahan, 1992) and that's why it is considered to be most acceptable view providing reliable theoretical foundation to SHRM till today. Barney's (1991) resource-based view (RBV) has strong implication for strategic human resource management (Barney & Wright, 1998; Wright & McMahan, 1992) by highlighting the importance of human resource as internal organizational resource eligible to sustain competitive advantage. RBV proposed that organizational resources that are valuable, rare, inimitable and non-substitutable act like a source of creating competitive advantage. So human is organization's exclusive resource in terms of intellectuality and SKAs. HRM practices develop employees and are able to promote employees' value, uniqueness, and inimitability (Wright & McMahan, 1992). Although

RBV is very much successful for providing the theoretical basis to SHRM but many scholars (Allen & Wright, 2006; Way & Johnson, 2005; Wright et al., 1994) are agreed upon that RBV does not help in creating the insight into the process or mechanism through which SHRM actually enhance organizational performance and effectiveness (Way & Johnson, 2005). RBV helps in understanding what is needed by a competing firm for organizational effectiveness but how to achieve that is still a question under its lens. This 'how' factor has been answered to some extent when many researchers (Wang & Shyu, 2008; Way & Johnson, 2005) started to explore further and examine the impact of SHRM on the organizational performance/ effectiveness in the contingency perspective. Contingency aspect of SHRM was founded when Miles and Snow (1978) investigated and found positive relationship between organizational strategy and different management models. Even Schuler and Jackson's (1987) behavioral perspective to SHRM has its foundation in contingency theory (Wright & McMahan, 1992; Fisher, 1989). Human resource scholars have recognized particular sets of human resource practices that are able to produce better organizational performance if properly matched with specific organizational objectives, circumstances, and business strategy (Lengnick-Hall, *et al.*, 2009; Wang & Shyu, 2008; Huang, 2001; Othman, 1996; Bird & Beechler, 1995; Schuler & Jackson, 1987; Miles & Snow, 1984; Miles *et al.*, 1978).

For finding the importance of contingency aspect of vertical fit, many researchers studied it in comparison with universalistic and configurational approaches (Michie & Sheehan, 2005; Delery & Doty, 1996; Youndt et al., 1996). Their work concluded that those firms, which were following contingent human resource practices on their business strategies, were able to perform a lot better than those that didn't.

As the role of human resource practices has always been striven for employee skills and behaviors enhancement so that in the times of obligation these SKAs could adjust in pursuing business strategy for the firm's sustain competitive advantage (Legnick-Hall *et al*, 2009; Wright & Snell, 1998). Similarly, Wright and Snell's (1998) point of view about the importance of employee skills and behaviors has led to the understanding of employee-organization alignment and congruence. Business and human resource strategies are usually planned at the top level and very little attention is given to comprehend whether or not general employee has understanding of the business strategy. In most of the situation, employees do not know how or where to direct their efforts discretionarily. This highlights the importance of line-of-sight (Boswell, 2006; Boswell & Boudreau, 2001). Line-of-sight is the employee understanding of organizational objective and, how and where to direct their efforts in order to enhance the organizational performance.

1.2. Purpose of the study

In literature business strategies, HRM strategies and organizational performance has been investigated alternatively in several relationships. Several research studies have investigated the impact of employee's understanding of business strategies and their contribution to the overall organizational performance (Boswell, 2006; Kristof, 1996) but no study has been yet conducted to study the line-of-sight in relation to vertical fit. This study aims to bridge this gap by specifically highlighting the role of line-of-sight as moderator in enhancing the organizational performance.

1.3. Statement of the problem

Strategy formulation usually focuses on the changes going on in the external environment but elements internal to the firm provide mechanism for strategy implementation (Lengnick *et al.*, 2009; Armstrong, 2000). Human resource as internal element to firm is one of the main resources for proper implementation of strategy, for both business and human resource strategy (Youndt, *et al.*, 1996; Wright & Snell, 1998; Boswell, 2006). This research has tried to take one step forward to address the SHRM issue regarding how any organization actually gets impact of vertical fit on her organizational performance in financial terms? (Lengnick *et al.*, 2009; Way & Johnson, 2008; Delery, 1998). SHRM researchers have not tapped whether line-of-sight has any moderating role on the relationship between vertical fit and organizational performance or not. Similarly, to what extent the line-of-sight is able to explain the ‘how’ factor attached to SHRM for enhancing the organizational performance? In short, the main interest of this study was to verify whether vertical fit has positive impact on the organizational performance and is line-of-sight plays moderating role on the relationship between the vertical fit and organizational performance?

1.4. Objectives of the research

The objectives of the study are:

- To investigate whether organizational performance can be enhanced by proper alignment of HRM practices with business strategy (vertical fit).

- To explore the relationship between vertical fit and organizational performance while line-of-sight plays moderating role in between, in service industry of developing economy, Pakistan.

1.5. Significance of the study

The role of line-of-sight along with the associations of vertical fit and organizational performance has remained untapped by the researchers. This study has documented the effectiveness of vertical fit on the organizational performance with and without including the moderating role of line-of-sight. This study contributes to the strategic human resource management literature by providing information on the relationships between vertical fit, line-of-sight and organizational performance within the service industry of developing economy, like Pakistan. The results of this study are helpful for organization's business executives and HR executives/managers to lay their proper consideration on the importance of matched business strategy and human resource strategy while formulating business polices for gaining competitive advantage.

CHAPTER 2

LITERATURE REVIEW

CHAPTER 2

LITERATURE REVIEW

Strategic human resource management is concerned with the contribution of human resource to the organizational objectives and better performance for competitive advantage (Wright, 1998). Strategic human resource management has shifted the theoretical focus from individual human resource practice to an integrated framework of different human resource systems or HR bundles and their contribution to firm's goals strategically (Mayson, 2006).

Academic definitions and theories about vertical fit have clearly highlighted the importance of linkage between the HR systems and business strategies (Fombrun, *et al.*, 1984; Wright & McMahan, 1992). Nadler and Tushman (1980) has defined 'fit' in a very general but concise manner as "*the degree to which the needs, demands, goals, objectives and/or structure of one component are consistent with the needs, demands, goals, objectives, and/or structure of another component*". This definition provides the basis and importance of 'fit' in different fields of research. As far as strategic human resource management area is concerned, the idea of 'fit' was advented when Devanna, Fombrum and Tichy (1981) presented the strategic aspect of human resource

management. The theory of 'vertical fit' contains any set of HR practices depending upon the firm's strategy and these practices have impact on firm performance (Wright, 1998).

Wright and Snell (1998) suggested that in a business, strategic HRM deals with those human resource practices which are used to support the firm's business strategy. In strategic business literature usually two types of HR fits are found, horizontal fit and vertical fit (Wei, 2006; Armstrong, 2000). The horizontal fit is an alignment and consistency among the HR practices in HR system or bundle. The HR practices like selection, training, compensation, employee relationship, and performance appraisal etc., are aligned in such a way that each HR practice supports other practice and becomes complementary for it (Baird & Meshoulam, 1988). Whereas, vertical fit (Schuler & Jackson, 1987) involves those HR practices/strategies that are integrated with the business strategy and support in achieving organizational objectives. The HR practices of vertical fit are internally consistent, mutually dependent (Mohrman & Lawler, 1999) and also coherent with firm's business strategy. As both types of HR fits enhance the competitiveness of a firm so it is important to arrange a variety of HR practices in systematic way.

Huselid, Jackson and Shuler (1997) divided HRM activities into two parts, technical HRM activities and strategic HRM activities. Considering the Barney's (1991) resource-based view, they suggested that with the help of technical HR activities firms could select high-valued, skillful employees and trained them in a way, which make them unique with respect to other firms. Strategic HR activities are those activities, which are harmonious and supportive to the firm strategies in achieving its objectives. The strategic aspect of the HR activities ensures the inimitability of HR resources to other firms. Huselid *et al.*,

(1997) division of HR activities into two categories goes along both types of HR fits (Wei, 2006). The idea of strategic human resource management goes with vertical fit and technical HRM is consistent with that of horizontal fit. Technical HRM bridges a series of HR practices that not only support each other but also enhance the effectiveness of one another. These activities include attracting skillful employees, inserting them in suitable positions; train them to work in specific way, and motivating them to add more useful schemes to organizational objectives (Wei, 2006). So, systematic design is required to coordinate these separate HRM practices to achieve the horizontal fit. This idea of horizontal fit has changed the SHRM researcher's focus from individual HRM practices to the entire HRM system.

Strategy formulation usually focuses on the external environment changes but elements internal to the firm are viewed as mechanism for strategy implementation. Human resource as internal element to firm, is one of the main resource for proper business strategy implementation and responsible for gaining the competitive edge over other firms (Barney, 1991). Several studies have investigated the role of SHRM on the overall business operational and financial performances. SHRM plays substantial role to grasp the strategy function through driving the HRM practices. Different business researchers investigated different sets of human resource management practices in the business strategy context (Schuler & Jackson, 1987; Miles & Snow, 1984; Porter, 1980) and empirically studied their effects on the organizational performance.

Throwing light on how actually vertical fit works for the organizational efficiency and effectiveness, is actually the answer to 'how' factor attached to resource-based view. Wright and Snell (1998) presented the strategic HRM model, which emphasis on the

knowledge of skills and behaviors required for the implementation of the business strategy, necessary knowledge of the HR practices to bring out those skills and behaviors and, last but not the least, ability for quick implementation of the HR strategy. These fit-seeking notions are although quite difficult to achieve but this difficulty actually leads any organization to gain competitive advantage. Their research is mainly focused on the fit under two conditions, one is a fit in stable & predictable environment and other in dynamic environment. They argued that first type of fit is easy to achieve whereas dynamic environment fit needs timely information, resource flexibility, coordination flexibility and quick implementation of aligned HR and business strategy. Way and Johnson (2005) commented on vertical fit literature in precise manner. According to them the purpose of the vertical fit is to organize an HRM system of such practices that work together to elicit those behaviors and attitude from organization's human resource, which are necessary for achieving of organizational objectives. So on the SHRM side what really matters is employee behavior, which is a fundamental outcome, affecting the organizational performance eventually. Employee's behavior should be helpful enough to implement the business strategy for gaining competitive edge (Schuler & Jackson, 1987). Bird and Beechler (1995) did most significant and probing work on the vertical fit, in which well-defined business strategies and human resource strategies were checked for their congruence and impact on the organizational performance. They studied 64 Japanese subsidiaries in the U.S. for examining the congruence between Miles and Snow's business strategies and Dowling and Schuler's HR strategies. The result analysis confirmed that subsidiaries with matched human resource and business strategies performed better than unmatched firms. Their research confirmed that proper integration

between business and HRM strategy yield benefits in terms of lower turnover rates ($t=2.01, p < 0.1$), longer employee tenure ($t= 18.94, p < 0.01$), as well as higher levels of employee morals ($t= 2.33, p < 0.1$).

The work of Delery and Doty (1996) on the other hand, has set a milestone in the strategic human resource management literature. They investigated 1050 USA. banks for the congruence of the business strategies and HR system under three dimensional SHRM theories. They examined the strategy-HRM linkage impact on return on average asset (ROA) and return on equity (ROE). Their results provided support for vertical fit. Those banks that were able to align their HR practices with the business strategy were likely to have probably 50 % higher ROA and ROE than those which did not.

One of the earlier studies carrying the moderation effects in the SHRM model was of (Youndt, Snell, Dean and Lepak, 1996). They surveyed 97 plants in metal-working industry. They selected human capital-enhancing HR system and business strategies of quality, delivery flexibility and cost. Their study analyzed the moderating effects of business strategy on the relationship between human resource and operational performance. They measured performance in terms of machine efficiency and productivity. They also measured the degree of congruence between particular business strategy and HR system across the entire sample. The result indicated that business strategy did, in fact, moderate the HR-performance relationship ($F = 2.20, p < .05$).

Reasoning their own results, Youndt et al. (1996: 19) said, "*Overall, the moderation results provide strong evidence that manufacturing strategy influences the HR-performance relationship with a quality strategy interacting with human-capital-enhancing HR to predict performance and delivery flexibility and cost strategies*

interacting with administrative HR to predict performance. In short, maximizing performance appears to depend on properly aligning HR systems with manufacturing strategy."

SHRM literature has proved that systematically coordinated human resource strategies with business strategies effectively influence the employee's attitude, behaviors, skills, and knowledge in making them organizational intangible resource (Barney, 1991). The most influential factor for the integration of HRM with strategic decision making is not only strategy type but also the top managers' view about employees as strategic resource (Bennett *et al.* , 1998). Further, Bennett, Ketchen and Schultz (1998) argued that proper level of integration raise the expectations of top managers for human resource as an integral part of the strategic decision making and eventually contributes to overall organizational performance. The consideration of human resource as a strategic resource by the top management has effective impact on the employee moral and retention (Othman, 1996; Huang, 2001), although minimal impact on financial performance but significant impact on overall organizational performance. The researcher Huang (2001) studied 315 firms in Taiwan for this purpose. His study clearly showed the significance of vertical fit for enhancing the organizational performance ($F = 2.01, p < 0.1$). The mismatches among business strategies and human resource strategies have showed adverse effects on the employee moral and retention.

Although most of the studies focused (Bird & Beechler, 1995; Delery & Doty, 1996; Othman, 1996) on the matching perspectives between business and human resource strategies yet some other (Huselid, 1995; Youndt et al., 1996; Huang, 2001; Wang & Shyu, 2008) followed moderation perspectives. Studying the moderation aspects of

business and human resource strategies, researchers have either study the moderating impact of business strategy or that of human resource strategy by taking different sets of HR practices (Porter, 1980; Miles & Snow, 1984; Schuler & Jackson, 1987) and examining their impacts on financial, operational and HR performance. Most recent study of Wang and Shyu (2008) has also investigated the impact of vertical fit in the moderation perspective. They examined not only the conjunctional impact of business and HR strategies on the labor productivity but also moderating impact of another HRM effectiveness on the relationship between vertical fit and organizational performance.

Wang and Shyu (2008) surveyed top 181 manufacturing companies in Taiwan for examining the business strategy alignment with HRM strategy and its impact on labor productivity. Researchers studied the contingency effect of vertical fit on organizational performance through direct and interactive interactions. For having the interactive effects they run moderation tests by keeping variables one by one as moderator to explore the role of moderation on organizational performance. Their study clearly demonstrated that vertical fit has positive and significant effect on HRM effectiveness, which inturn leave direct impact on the organizational performance. They also examined the direct impact of vertical fit on organizational performance and found it also positive. For interactive effects, they positioned vertical fit as moderator on the relationship between HRM effectiveness and organizational performance, the beta B for the interaction of strategy fit and HRM effectiveness was significant in the regression model ($t = 2.11, p < 0.05$), the R^2 was also significant ($t = 2.01, p < 0.05$). It suggested that vertical fit moderated the relationship between HRM effectiveness and organizational performance.

Business strategy requires a series of organized and related decisions that gives any business a direction and competitive advantage as compare to other businesses (Armstrong, 2000; Schuler & Jackson, 1987). The concept of business strategy is actually derived primarily from Porter's (1980) classifications of generic strategies. Porter (1980) elaborates business strategies as cost leadership, differentiation, and focus. Then, Miles and Snow (1984) classified business strategies into four typologies as defender, prospector, analyzer and reactor. They also proposed corresponding strategic human resource systems to each business strategy for gaining competitive edge over other firm. Considering Porter (1980) business strategies, Schuler & Jackson (1987) used three other labels to reclassify these business strategies into three types as cost reduction, innovation, and quality enhancement. They also selected different types of employee behaviors and HRM practices that were best matched to each business strategy. Parallel to competitive strategies, some other researchers (Dyer, 1984; Dowling & Schuler, 1990) have also worked on the formulation of HR strategies. Dyer (1984) tried to integrate the business strategies to HRM strategies named as inducement, investment, and involvement. Later on, Dowling and Schuler (1990) reclassified them as: Utilization, Facilitation, and Accumulation receptively. Large part of SHRM literature revolves around these business strategies (Schuler & Jackson, 1987; Porter, 1980; Miles & Snow, 1978) and HR strategies (Dowling & Schuler, 1990; Dyer, 1984).

Miles and Snow's (1978) proposed business typologies comprised of four categories: the defenders, analyzers, and prospectors, and reactors. This study has considered Miles & Snow's (1978) business strategies for four main reasons: Firstly, these typologies are well documented and able to provide substantial conceptualization of strategy; secondly, the

empirical results of numerous studies have shown convergent validity (Doty et al., 1993); thirdly, Miles & Snow have also tailored themselves, the key HR practices to the demand of each business strategy; lastly, Miles & Snow's (1984) key HR implications are easily distinguishable under the Dowling & Schuler's (1990) HR categories of accumulation, facilitation and utilization (Bird & Beechler, 1995).

Prospector is the most dynamic form of organization, which competes in broad product and market domains, and remains in continual state of change. These organizations are in the search of markets where they can regularly experiment the possible responses to emerging environmental trends and closely monitor external events. Thus, these organizations often are the creators of rapid change and experience high risk (Miles *et al.*, 1978). Structurally, prospector firm is associated with low levels of formalization and specialization but high levels of decentralization, few hierarchical levels (Burton *et al.*, 2006) and flexibility. The flexibility is specifically in technological aspect (Wright & Snell, 1998; Szilagyi & Schweiger, 1984) that can cope with constant change of product line and rapid resource deployment (Bird & Beechler, 1995).

For firm pursuing a competitive strategy of prospector, the outline of employee behaviors requires (1) a short- term focus, (2) high degree of creative behavior, (3) high degree of risk taking, (4) high tolerance of ambiguity and unpredictability, (5) high level of coordination and interdependent behaviors

Miles and Snow (1978) defined defenders as conservative business units, which are having preference to maintain a secure position in relatively stable product/ service area instead of looking to expand their business. They compete primarily on the basis of efficient delivery of service, price and quality. Defenders are more interested in

protecting their market share through deep market penetration instead of new product or market development. As their emphasis is on one core and stable product so they have single core technology, often vertically integrated. These firms are high volume but low-cost oriented. Structurally, they tend to be highly specialized, centralized, formalized, and functional through wide range of labor division (Miles & Snow, 1984). Defenders discourage risk-taking because they prefer consistency over innovation.

For firm pursuing a competitive strategy of defender, the outline of employee behaviors requires (1) a long-term focus, (2) high degree repetitive and predictable behaviors, (3) low degree of risk taking, (4) high degree of reliability and stability, (5) high level of individual activities.

Analyzer strategy is an exclusive combination of the prospector and defender strategy types. Analyzer represents those organizations that function in relatively stable as well as dynamic product/market areas (Miles & Snow, 1978). Analyzer organization can compete in early phase of the product development when the emphasis is on the inimitability, rareness and non-substitutability, and also on later phase, when mass production becomes necessary for gaining competitive edge (Miles & Snow, 1978). In their stable area, these organizations operate efficiently through formalized organizational structure and operations. In their unstable areas, top managers watch their competitors closely for new ideas and then rapidly adopt those with promising potentials. These organizations are less committed to stability and efficiency than defenders (Hambrick, 1983). Growth normally occurs through market diffusion and product-market developments. Planning is both intensive and comprehensive. The main characteristics and behaviors includes dual technology core and moderate efficiency, dominant coalition

in marketing, applied research and production. Most interestingly, these firms can offer unique products at low cost.

This dual focus may result into increased organizational size because such organization must engage in mass production, research and development. For firms pursuing a competitive strategy of analyzer, the employee behaviors require both elements of prospector and defender, mainly encouraging employees for self-development of SKA (Burton *et al*, 2006).

In previous two decades, the competition perspectives and firm advantages have been shifted towards the strategic role of the human resource (Delery, 1998). Conner and Prahalad (1996) has pointed out that strategic management theorists moved towards resource-based and knowledge-based view of the firm, where distinctive competency increasingly resides in a firm's ability to learn, innovate and timely understanding of change. As a result, the element of 'human' has becomes ever more important in generating economic value.

In the strategic human resource literature, researchers have investigated various HRM strategies. Some of those have focused on employee high-involvement (Lawler, 1992), high-commitment (Walton, 1985), high-performance strategies. Researchers have studied the importance of human factor according to specific business strategies and design various HR practices for enhancing human SKAs technically and behaviourally (Dowling & Schuler, 1990; Schuler & Jackson, 1987; Miles & Snow, 1984). Dowling and Schuler (1990) elaborated three HR strategies, named as accumulation, utilization and facilitation, are well categorised in accordance with the technical and behavioral demands of business strategies.

A utilizer HR strategy is based on minimum commitment and high human ability utilization. It seeks to position the human resources on the basis of ready-to-use talent, so personnel selection and termination is based on short-term needs (Othman, 1996). Placement of employees is according to the best match of employee skills to specific job requirements (Bird & Beechler, 1995). This HR strategy works in organizational requirements consist of constant state of change, decentralized decision-making, extensive environmental monitoring, low degree of structural formalization and rapid resource of deployment (Bird & Beechler, 1995)

An accumulator strategy is focused on maximum involvement of employee's technical skills. Under this strategy the firm acquires human resources with latent potential and build up that potential over time in a way consistent with the organizational needs. In this strategy, employee abilities, skills and knowledge is also developed according to the requirement of the organization and external environment (Bird & Beechler, 1995). Organizations practicing this HRM strategy put lots of emphases on the SKAs development through training, social equality and life time employment (Wang & Shyu, 2008). This HR strategy works in that organization where maintenance of stability, internal focus, centralized control, limited environmental monitoring and standardized operating procedures are core issues (Bird & Beechler, 1995)

A facilitation strategy is based on maximum employee involvement and generating new knowledge. Under this strategy the firm acquires self-motivated personnels and encourage them to develop their own abilities, knowledge and skills, which they and their employer believe are important for organization (Bird & Beechler, 1995). As high level

of cross-functional and cross-unit cooperation is expected so teamwork is encouraged in collaborative work situation (Othman, 1996). This HR strategy works in organizational requirements consist of flexibility, administrative differentiation, intensive and comprehensive planning, offering unique product at low cost (Bird & Beechler, 1995). This study has mainly focused on five HR practices for the implementation of each HR strategy. The five HR practices are internal career opportunities, performance appraisal, training and development, compensation, job description (Delery & Doty, 1996). Table 1. is representing HR practices with definitions.

Table 1. HR Practices' Definitions.

HR practices	Definitions
Internal career opportunities	<i>It encompasses the hiring of employees from inside the organization and also provides well-defined career ladders (Delery & Doty, 1996).</i>
Training & Development	<i>Training and career development activities are designed to help an organization to meet its skill requirements and to help its employees realize their maximum potential. (Gomez-Mejia, et al., 2003)</i>
Performance Appraisal	<i>Managers assess how well employees are carrying out their assigned duties by conducting performance appraisals. It consists of identification, measurement and managing of human performance in organizations (Banks & Roberson, 1985)</i>
Job description	<i>Job description is a written statement of what the jobholders does, how it is done and why it is done (Decenzo, 1989).</i>
Compensation	<i>Compensation is the payment that employees receive in exchange for their labor. The package of quantifiable rewards an employee receives for his/her labors. It includes three components: Base compensation, pay incentives and indirect compensation/ benefits (Milkovich & Newman, 1999).</i>

2.1. Business strategy, HRM strategy and required HR practices

Figure 1 represents the suitable combinations of business strategy with human resource strategy.

Prospector firms are expected to take-up utilization HRM strategy through providing ready-made (buy skills) skills consistent with the companies' frequently changing needs. Such combination emphasizes less on employee commitment while tries to achieve high skill utilization. As a result, selection policies focus on matching the employee skills to job requirements (Bird & Beechler, 1995). Empowered supervisors mainly do recruitment that is need-based and normally outside the organization (Wang & Shyu, 2008). In the unstable environment of the prospector firm, the employee recruitment is sudden and separation is in the form of layoffs (Richard, 1999)

The combination of prospector and utilizer strategy encourages the development of appraisal and reward system based on results (Delery & Doty, 1996). As appraisal system is result oriented so there is need of customized appraisals, which are used as developmental tool. As far as designing of appraisal system is concerned, it must be in accordance with the training, promotion and selection decisions. It should encourage the active participation of various employee groups like supervisor, peers, and subordinates (Schuler & Jackson, 1987).

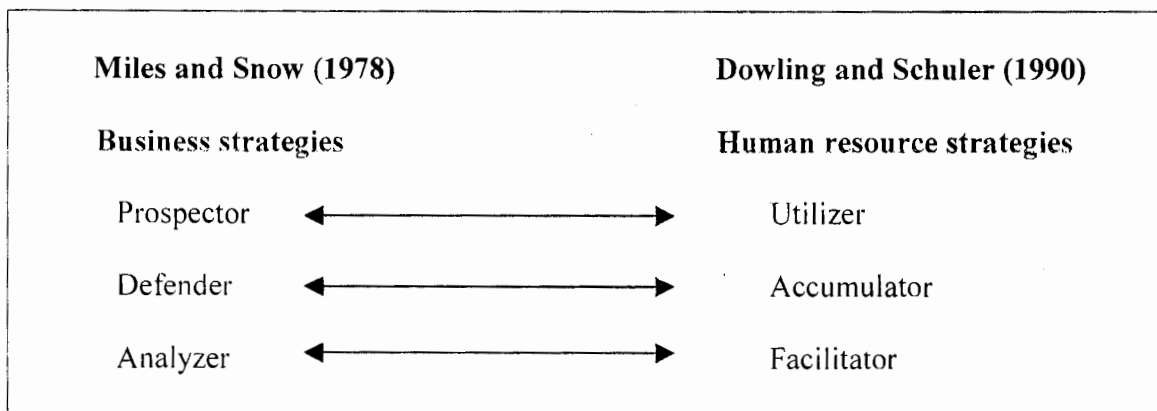
Prospectors require employees' skills updation on regular basis. As these businesses need high levels of expertise so high level of training is also required (Miles & Snow, 1978). The need for rapid exploitation of resources in response to market innovation and development reduces the emphasis on pre-planned training (Bird & Beechler, 1995). The

rapid adaptability system for innovation in prospector business unit makes the training process team-based and also raises the chance of external training (Wang & Shyu, 2008).

As jobs are difficult to monitor and outcomes are usually unpredictable so compensation is totally based on the employee's performance and achieved objectives. Generally compensation is in the form of profit sharing. (Delery & Doty, 1996).

Job descriptions for employees are generally implicit and broadly defined to enhance the chance of coping with dynamic environment.

Figure 1. Suitable Combinations of Business Strategy and Human Resource Strategy.



Firms with defender strategy has limited search for new market opportunities. These firms concentrate more attention on the ways to enhance organizational efficiency internally (Miles & Snow, 1984). An accumulator HRM strategy serves defender's needs because it focuses on providing skill development in accordance with the firm's slowly arising HR requirements. It is concerned with the exploring HR practices for employee's latent potential to make them effective for business (Bird & Beechler, 1995).

As defenders require standardized technical skills and fewer professionals so recruitment procedure does not need to be too much selective. Jobs are well described, easy to monitor and performance outcomes are predictable. Recruitment is often internal through well-defined career ladder (Delery & Doty, 1996) by HR department. The process of hiring is formal and based on predefined lines. The defender firm searches for long terms personal fit between employer and employee (Bird & Beechler, 1995).

Performance appraisal follows uniform appraisal procedures and used as a control mechanism to point out low producers. Behavior-oriented measures are used for performance evaluation and feedback is provided for the developmental purposes rather than providing output facts and figures (Delery & Doty, 1996). Narrow-focused appraisals are used to evaluate the employee performance due to narrowly and clearly defined job descriptions. Supervisor's input is usually considered for performance evaluation (Gomez-Mejia, *et al.*, 2003; Delery & Doty, 1996).

A study conducted by Wang and Shyu (2008) found that training has higher positive effects for firms adopting a cost control strategy (defender) than for innovation strategy (prospector). Employees' training is extensive to develop SKAs for performing their jobs normally through on-the-job training (Bird & Beechler, 1995; Delery & Doty, 1996). In addition, defender organizations also invest to train the firm's own lower-wage employees (Miles & Snow, 1984).

Defender's compensation policy emphasize on internal pay equity. The application of compensation is fixed and on seniority basis (Bird & Beechler, 1995), that's why few incentives are used (Delery & Doty, 1996). HR department makes centralized pay decisions (Gomez-Mejia *et al.*, 2003).

Jobs are very tightly and well-defined, easy to monitor and outcomes are predictable (Burton *et al.*, 2006; Delery & Doty, 1996).

Analyzer business as operates in both stable and new market domains so facilitator HR strategy fits its organizational requirements. It assists the management of dual pressures imposed by defender and prospector business requirements (Bird & Beechler, 1995). The vertical fit of analyzer-facilitator lies somewhere in the middle of other two fits (prospector/Utilization and defender/ accumulation)

Analyzer requires professionals for managerial positions. The search of new markets requires an infusion of new talents into the firm, so hiring is encouraged from the external labor market. Maintenance of stable product markets, in contrast, makes the internal development of employees necessary (Bird & Beechler, 1995). Consequently, staffing policies are likely to be a mix of both internal and external labor.

Other HR practices like training, performance appraisals, compensation, and job descriptions (Burton *et al.*, 2006) consist the attributes of both defender and prospector's HR practices.

Much of the strategic HRM literature focused on the patterns of HRM practices, which are eligible enough to realize the organizational strategy effectively and maximize the performance. At the same time, the ultimate objective of SHRM is to recognize and accept employees' behaviors and their understanding of organizational objectives (Boswell & Boudreau, 2001). The alignment of HR strategy with business strategy encourages an employee to understand the organizational objectives and to find out contributing ways to access those objectives (Lengnick-Hall *et al.*, 2009). In other words,

properly matched HR-business strategies are helpful in aligning the line-of-sight of an organization and employee.

Line-of-sight is an employee's well understanding of organizational objectives and the ways in which he/she can contribute to those objectives (Boswell & Boudreau, 2001). This definition not only encompasses the alignment of employee interest with an organizational interest but also the importance of necessary actions, which will be ultimately contributed to the firm's strategy.

Two aspects are very important while developing the employee's line-of-sight. Firstly, the emphasis should be on shaping mindsets rather than just directing employee behaviors, and secondly, the discretionary and unspecific nature of employee behaviors (Boswell et al., 2006). Employees make judgments and use discretion to engage in strategically appropriate behaviors directed by the organization's overall objectives. Employees' line-of-sight emphasis leads to the importance of interaction and information sharing among the employees and authority for the clear vision. Now from here the role of HRM strategy starts to align the employees' sight with the organizational goals and provide the opportunity also. HRM practices help to create line-of-sight, like proper staffing and training ensure that employee will understand his/her job nature and develop necessary skills and abilities to carry out business strategy effectively. Simultaneously, motivational HR practices (e.g., rewarded for individual or group performance) would encourage the employee to commit such behaviors that are having value creating abilities. On the opportunity-providing part of HRM strategy, if employees were given the opportunity to contribute in the organizational functions then they would be much interested to find ways through which their actions could achieve something for their

organization (Boswell, 2006; Armstrong & Foley, 2003; Armstrong, 2000). In short to achieve line-of-sight, it is necessary to have shared mindset among employees and the organization, and the resulting behavioral outputs lead to the attainment of organizational strategic goals.

According to Hatch and Dyer (2004), employees who are aligned with the firm's objectives they frequently show behaviors that promote learning, specially, learning by doing. When human resources possess unspoken and firm-specific knowledge then employee behaviors associated with the firm's specific strategic goals become a source of competitive gain, which are valuable, rare, inimitable and non-substitutable (Barney, 1991). Huselid and Becker (2000) have judged in four national surveys and observations of about 2000 firms, that the effect of one standard deviation change in the HR system was able to increase 10% to 20% of a firm's market value.

It is important to differentiate line-of-sight variable from other conceptually related variables established in the literature. SHRM literature has widely focused person-organization fit as an alignment of individuals with organizational culture and resources (c.f. Boswell, 2006). Another study conducted by Chatman (1991) showed that person fit with the organization's culture associated positively with retention and work attitudes whereas line-of-sight specifically concentrates on employee alignment with an organization's strategy rather than its culture. Another conceptually related variable is 'goal congruence', which is indeed nearly related to line-of-sight concept. It asserts the degree of agreement or endorsement of work-related goals between employees and organizational elements (e.g. supervisors) and has positive association with work attitude and employee retention (Yukl & Fu, 1999). Taking together the philosophy of fit, P-O

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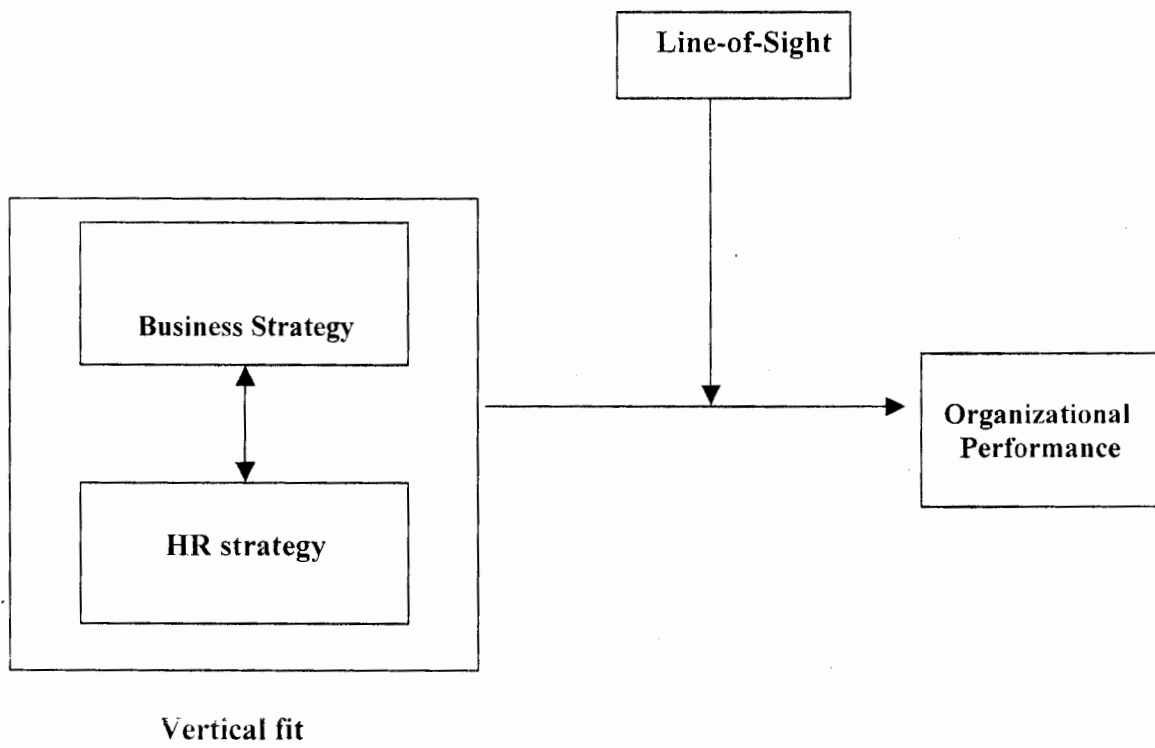
and goal congruence, they all support the importance of employee alignment but with different components of organization. Line-of-sight is conceptually different by focusing on strategic objectives, employees' awareness of firm goals and the way they contribute their efforts toward achieving those goals (Boswell, 2006).

This study tried to analyze the effectiveness of Dowling and Schuler's (1990) HRM strategies in achieving the strategic objectives of Miles and Snow (1978) business strategies. Although regarding moderation aspects of business and human resource strategies, researchers have either studied the moderating impact of business strategy or human resource strategy in their study with different sets of HR practices, business strategies and organizational performances. Few studies have been conducted to test the other organization variables as moderator between vertical fit and organizational performance (Bird & Beechler, 1995; Wang & Shyu, 2008). This study has tried to fill up this gap by considering the 'line-of-sight' as most important and effective organizational variables acting as moderator on the relationship between vertical fit and organizational financial performance. So, hypothesis for testing are:

H1. The vertical fit has a positive impact on the organizational performance.

H2. The line-of-sight moderates the relationship between vertical fit and the organizational performance.

Figure 2. Theoretical framework



CHAPTER 3

RESEARCH METHODOLOGY

CHAPTER 3

RESEARCH METHODOLOGY

3.1. Sample and procedure

Data for this study was collected from service industry where the employees were in frequent contact with customers and required a great deal of behavior manipulation for proper dealing and achieving the firm's goal in strategic manners. Basically, this study was designed to explore the causal relationships among the variables. This research was intended to know that either it was vertical fit or line-of-sight, or interaction of both, which was actually responsible for better organizational performance.

Target population was comprised of banks, restaurants, courier services, travel agencies, insurance companies, telecom industry, etc. As it was not possible to reach all service providing firms due to geographical dispersion so it was decided to use convenience-sampling method to obtain the study sample. Initially, 160 questionnaires were distributed with the assurance that respondents could understand all questions. Out of 160 questionnaires, 117 questionnaires were returned with the 73% response rate. Out of these 117 returned questionnaires, 5 questionnaires were with incomplete responses so these were discarded. 3 questionnaires were having reactor business strategy, which was beyond the scope of this study so these questionnaires were also discarded. 109

questionnaires were eligible for this study. So, acceptable response rate was 68%. Questionnaire contained two parts. First part to be filled by organizations' executives (top positioned available/accessible person), it contained queries about business strategies, human resource strategies and organizational performance, and second part to be filled by any general employees. This part contained constructs regarding line-of-sight. Further, each part also contained personal information section to address other important variables having general impact on the organizational performance. Each questionnaire was delivered to respective respondent and record was kept on separate sheet that contained respondents' names (both business/HR executives and general employee), organizations' names, and respondents' contact numbers. 3 to 4 days were given to each respondent to fill up the questionnaire. Before going to collect questionnaires, phone calls were made to remind and confirm that questionnaires had been filled.

3.2. Measuring Instruments

All the measures are explained below.

3.2.1. Business strategy

Based on the classification of Conant, *et al.* (1990), this study selected their multi-item scale for measuring business strategy type. There were eleven adaptive cycle categories as pointed out by Miles and Snow (1978) under the headings of three adaptive solutions: Entrepreneurial, engineering and administrative. Each category out of eleven contained relevant four business strategies statements based on four business types of Miles and Snow (1978), which were defender, prospector, analyzer and reactors. Respondents were HRM executives/ top managers of sample organizations. They read each statement and

selected one out of four statements, which they thought closest to their organization's strategy. The over all Cronbach Alpha of these business strategy statements was 0.74.

The identification of respective organization's business strategy was based on a 'majority-rule' (Conant et al., 1990) decision. Hence, the classification of organization strategy as prospector, defender, analyzer and reactor was dependant on the classified response option selected most often. If respondents would select those statements having defender characteristics more than other strategy statements then business strategy of that firm would be characterized as defender. In the case of ties between two or among business strategies, two rules were followed as mentioned by the author of business strategy construct (Conant *et al.*, 1990). Specifically, the tie between defender/ prospector and analyzer was considered as analyzer organization whereas any tie involving reactor statements was considered as the reactor organization. This study kept reactor response statements in the questionnaire just for convenience to remove the reactor organizations from the data because reactor firms do not follow any specific strategic patterns, structure and processes. It sometime behaves like defender when conducting environmental monitoring, prospector when developing new products, and analyzer when controlling and evaluating their performance (Conant *et al.*, 1990; Miles & Snow, 1978). So, it was necessary to exclude it for having clear and understandable results according to strategic human resource management point of view.

3.2.2. Human resource strategy

For measuring HR strategy of firms, HR practices of Delery and Doty (1996) were selected. This study selected five categories of HR practices, which included 15 HR practice statements. The overall Cronbach Alpha of these HR statements was 0.72.

Respondents answered these statements on 7-point Likert-type scales ranging from 7 to 1. 7= total agreement, 6= generally agree, 5= slightly agree, 4= neither agree nor disagree, 3= slightly disagree, 2= generally disagree and 1= total disagreement. All HRM questions were already designed in such a way that the higher score was considered more tended to be accumulator HRM strategy and lower score was closer to the utilization HRM strategy (Wang & Shyu, 2008). The decision of higher score for accumulator HRM strategy, lower score for utilizer HRM strategy and middle average score for facilitator HRM strategy was based on the approach suggested by the Govindarajan (1988) and operationally followed by (Delery & Doty, 1996). Delery and Doty (1996) specified facilitator as the mean value for each of the relevant variables whereas accumulator and utilizer were specified as plus or minus one standard deviation from the mean of each variable respectively. As Delery and Doty (1996) have taken all HRM statements on 7-point Likert scale, their mean value for accumulator ranges from 5.1 to 7, facilitator from 2.6 to 5 and utilizer from 1 to 2.5. This study had also adopted the same scheme identifying the three types of HRM strategies.

3.2.3. Vertical fit

Vertical fit occurred when firm's HRM strategy aligned with its business strategy. According to the theoretical model of Bird and Beechler (1995), when a prospector business adopted HRM strategy of utilization, defender adopted HRM strategy of accumulation, or analyzer adopted HRM strategy of facilitation, then it would be considered as consistent HRM strategy with its business strategy. These three strategy matches were considered as vertical fit (Wang & Shyu, 2008; Bird & Beechler, 1995) and

other matches as not fit. In the analysis, vertical fit was dummy-coded variable (0, 1), 1= fit and 0= not fit (Wang & Shyu, 2008; Huang, 2001).

3.2.4. Line-of-sight

Line-of-sight as moderating variable was measured through constructs selected from the study of (Armstrong & Foley, 2003). Each construct was measured on the 5-points Likert scale from 5 to 1, 5= strongly agree, 4= agree, 3= indifferent, 2= disagree and 1= strongly disagree. These constructs had Cronbach Alpha of 0.74.

3.2.5. Organizational performance

Organizational performance being a dependent variable was measured through self-reported or self-typed employee performance (Bird & Beechler, 1995; Conant *et al.*, 1990). Performance was measured on the basis of perceived average ROI, average profit, profit growth, average ROS, average market share growth, average sales volume growth, and average sales growth over past three years (Green, 2002). The Cronbach Alpha of organizational performance was 0.96. In the questionnaire, each question was measured on 7-items scale ranging from 7 to 1, 7= well above industry average, 6= generally above industry average, 5= slightly above industry average, 4= neither above nor below and 3= slightly below industry average, 2= generally below industry average and 1= well below industry average. Executives or alternately managerial assessments were considered for measuring financial performances due to their consistent understanding with firm's internal and external performance objectives (Conant *et al.*, 1990). Table 2 is representing the summary of measuring constructs.

Table 2. Summary of measuring instrument

Research concept	Original instrument author	Number of items	Cronbach Alpha
Business Strategy (Prospector/ Defender/ Analyzer)	Conant, Mokwa, Varadarajan (1990)	• 11-items	0.74
Human Resource Strategy (utilization/ accumulator/ facilitator)	Delery & Doty (1996)	• 15-items	0.72
Organizational Performance	Green (2002)	• 7-item	0.96
Line-of-sight	Armstrong & Foley (2003)	• 3-item	0.74

3.3. Control Variables

Some variables were controlled, as they were not allowed to differ freely with independent variables. The average value of a control variable or its impact should not change as the independent variable was manipulated. Based on previous studies, some control variables were included to get actual impact of vertical fit and line-of-sight on the organizational performance as much as possible. Control variables were organizational size, organizational age, and employee's total work experience in respective firm. Organizational size and organizational age may be more likely to have influence over well-developed HR practices (Bennett et al., 1998), so organizational size was controlled by taking natural logarithm of total number of employees (Wang & Shyu, 2008; Delery & Doty, 1996) whereas organizational age was measured through ordinal interval scale.

which was divided into four sets of year categories as < 10 years, 11_ 20 years, 21_30 years and > 30 years then giving these sets the value of 1,2,3 and 4 for data analysis. Better understanding of organization's mission, strategy, HR strategies and the ways through which employee could contribute to those objectives evolved over the time as an employee becomes more familiar with the organization (Boswell, 2006). This means that employee tenure has significant impact on the understanding of business and HR strategies. Employee tenure was controlled by taking natural logarithm of employee's total number of years in respective firm.

CHAPTER 4

DATA ANALYSIS AND

INTRPRETATIONS

CHAPTER 4

DATA ANALYSIS

109 respondents had an average tenure of 10.8 years with their services so their understanding with their respective organizations and responses to all questionnaire statements could be considered satisfactory. The purpose of this research study was to find out the causal relationship between independent and dependent variables and future prediction could be made about the dependent variables on the basis of current information. Considering the nature of data and scheme of a study, descriptive statistics, zero-order Correlation and multiple regression methods were considered suitable for analysis. The application of these methods is consistent with the previous studies (Wang & Shyu, 2008; Delery & Doty, 1996; Bird & Beechler, 1995).

4.1. Result Analysis

The descriptive analysis (Table 3) results revealed that analyzer strategy businesses (48 firms, 44.1 %) accounted for majority of this study sample, second larger business group was defender (41 firms, 37.6%), and third business group was prospector (20 firms, 18.3%). The HRM strategy of accumulator (68 firms, 62.4%) accounted for majority of the sample then second group was of facilitator HR strategy (39 firms, 35.7%) and finally utilizer (2 firms, 1.8%) HR strategy.

As presented in table 3, whether or not the business strategies of service industry matched with their HRM strategies. The results indicated that 49.5% (54 firms) were able to create vertical fit and 50.5% (55 firms) were remained unable to do so. This study also found that defender business strategy vs. accumulator HRM strategy reported mainstream of vertical fit firms (30 firms, 55.6%), analyzer business strategy vs. facilitator HRM strategy reported second largest vertical fit group (22 firms, 40.74%) and prospector business strategy vs. utilizer HRM strategy accounted for third group (2 firms, 3.7%) of vertically fit firms.

Table 3. Descriptive Statistics of Business Strategies and HRM Strategies

		Business Strategy				
		Prospector	Analyzer	Defender	Row Total	Row %
HRM strategy	Utilizer	2*	0	0	2	1.8%
	Facilitator	6	22*	11	39	35.7%
	Accumulator	12	26	30*	68	62.4%
Column Total		20	48	41	109	
Column %		18.3%	44.1%	37.6%		100%

* Boldfaced numbers denote predicted matches.

Table 4 presents the mean, standard deviation and correlation matrix of variables investigated in this research study. The association between vertical fit and organizational performance was (0.419, $p < 0.01$), which indicated that those organizations with vertical fit were significantly able to generate better organizational performance. Whereas the strength of association between the line-of-sight and organizational performance and similarly, between the line-of-sight and vertical fit was

so small that it could be ignored. Overall, line-of-sight did not explain any strength of relationship with any other variable.

Table 4. Mean, standard deviation and Zero-order correlation matrix

	Mean	Std. Dev.	1	2	3	4	5	6
1.Vertical_Fit	0.49	0.502						
2. Org_Perf	5.84	0.630	.419**					
3.Line_of_sight	4.49	0.373	.005	.030				
4. Org_age	2.33	1.123	.090	.045	.055			
5.Tot_work_Exp	2.02	0.918	.230*	.242*	-.093	.341**		
6. Tot_Emp_No	3.79	1.89	.185	.042	.047	.245*	.099	

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The relationship strength of total employee work experience with vertical fit (0.230, $p < 0.05$), and organizational performance (0.242, $p < 0.05$) was quite significant, which was evidence about the role being played by an employee in total number of years he/she with any organization. More number of years employee engaged in any organization, more understanding he/she would have with business strategy, HRM strategy and level of match between them. This matching between business and HRM strategy contributed to the employees' retention and engagement in an organization, enforcing them to contribute fruitfully to their organizational objective (Huang, 2001; Delery & Doty, 1996). The correlation between organizational age and total employee work experience was (0.341, $p < 0.01$) whereas between organizational age and total number of employees in that organization was (0.245, $p < 0.05$). This relationship showed that those organizations

with more years in a business had more experienced people and more number of employees.

Although correlation results showed considerable relationship between vertical fit and organizational performance but the actual impact of vertical fit on the organizational performance could be predicted from table 5, where 54 vertically fit firms had (mean=6.11) of organizational performance with (Std. Dev= 0.73) whereas 55 not fit firms had (mean = 5.58) of organizational performance with (Std. Dev = 0.36). This clearly indicated that those firms, which had properly aligned business strategy with their human resource strategy, had considerable good impact on their organizational performance figure 3.

Table 5. Comparison of Organizational Performance Mean for Vertical Fit and Not Fit

		Vertical_Fit	
		fit	not fit
Org_Perf	Mean	6.11	5.58
	Std. Dev:	.73	.36
	Maximum	7.00	6.29
	Minimum	3.57	4.57
	Range	3.43	1.71
	Sum	323.71	312.57
	Total N	54	55

Figure 3. Impact Of Vertical Fit and Not Fit Firms on Organizational Performance.

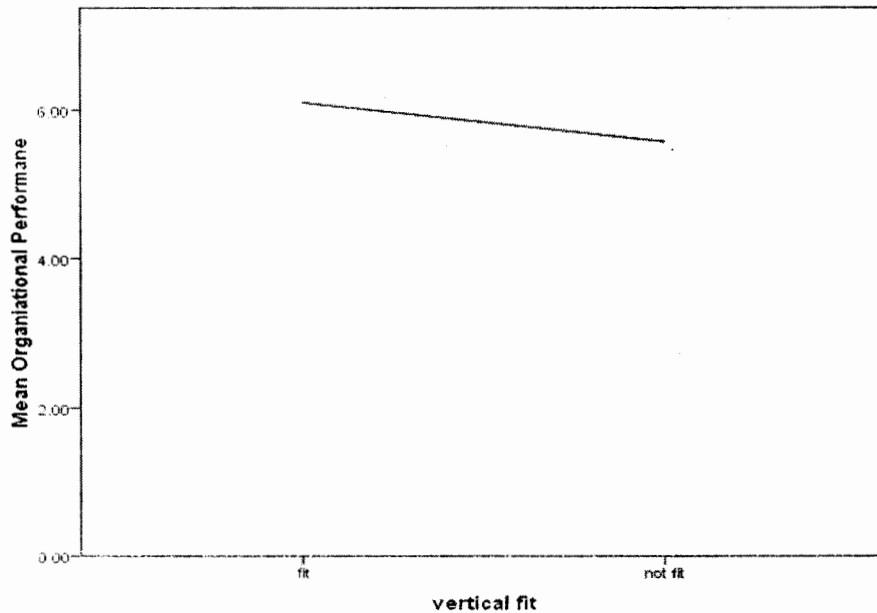


Table 6, is showing the results of multiple regression models, where model 1 is without moderation impact and model 2 is with moderation impact of line-of-sight on the relationship between vertical fit and organizational performance.

Multiple regression analysis is statistical technique, which analyzes the linear relationship between a dependent variable and multiple independent variables. In the table 6, R^2 (0.196), the coefficient of determination, in model 1 indicated that independent variable, organizational age, organizational size and total employee work experience, explained 19.6 percent of variation in the organizational performance. The standard error of estimation of this model was 0.58. As a further measure of the strength of model fit, the standard error of the estimate was compared to the standard deviation and mean of organizational performance in table 4.

Table 6. Results Of Multiple Regression Analysis

Variables	Org. Performance	
	Model 1 (With out moderation impact, <i>H 1</i>)	Model 2 (With moderation impact, <i>H 2</i>)
Intercept	5.410**	5.399**
Tot_Emp_No	0.019	0.018
Org. age	0.027	0.026
Tot_Emp_work exp	0.095	0.099
Vertical fit	0.505**	-
Mod_LOS (Vertical fit x line-of-sight)	-	0.113**
Standardized Coefficients <i>B</i> (for vertical fit in model 1 and MOD_LOS in model 2)	0.403	0.410
R^2	0.196**	0.21**
<i>F</i> statistics	6.58*	6.83*
<i>t</i> statistics (for vertical fit in model 1 and MOD_LOS in model 2)	4.29*	4.40*
Std. Error of the Estimate	0.58	0.57

$N = 109$

** $p < 0.01$

* $p < 0.05$

This indicated that without prior knowledge of the impact of vertical fit, the organizational performance had mean about 5.84 (generally above industry average), with a (Std. Dev= 0.63) but with the regression model, the error of estimate was

considerably lower, about 0.58. This showed the strength of this research model by decreasing the degree of deviation of organizational performance.

Model 1 showed overall significant result ($F = 6.58, p < 0.05$), where $F = 6.58$ was a compared value of the amount of variation in the organizational performance explained by vertical fit to the unexplained variation or error variance. The value of F was large enough to indicate that organizational performance had more explained value than error variance (Hair, et al., 2003).

The regression coefficient of organizational performance for vertical fit was ($B = 0.51, p < 0.01$) significant. The beta value indicated the importance of vertical fit (independent variable) in predicting the organizational performance. Standardized coefficient beta was 0.403. It was calculated by considering unstandardized regression coefficient to have a mean of 0 and standard deviation of 1. As vertical fit was measured on nominal scale and other variables were on Likert scales so this standardized coefficient B enabled vertical fit to compare its association directly with the organizational performance. This positive and significant value of vertical fit for predicting the organizational performance was in accordance with the results of (Delery & Doty, 1996; Wang & Shyu, 2008). The t value for vertical fit, in model 1, was ($t = 4.29, p < 0.05$), which showed that regression coefficient B was different enough from 0 to be statistically significant. This confirmed the first hypothesis ($H1$) of this research study, which stated that the vertical fit has a positive impact on the organizational performance.

In table 6, model 2 explained the moderation impact of line-of-sight on the relationship between vertical fit and the organizational performance. R^2 indicated that 21% of variation in the organizational performance was explained by the independent variable.

which was combined-effect variable of vertical fit and line-of-sight, Mod_LOS (vertical fit x LOS). The value of R^2 , in model 2, was greater than the value of R^2 in model 1. This showed that interactive effects of line-of-sight and vertical fit increased the explained variation in the organizational performance than alone vertical fit. In model 2, the standard error of estimation decreased more (0.57) as compare to that (0.58) in model 1. This confirmed that with the moderating impact of line-of-sight, the independent variables were more able to decrease the error in explaining the variation of organizational performance.

Model 2 showed overall significant results ($F = 6.83, p < 0.05$). This indicated that the explained variation of organizational performance by the interactive effects of vertical fit and line-of-sight was greater than error variance or unexplained variation in organizational performance. In table 6, F statistics of model 2 ($F = 6.83, p < 0.05$) was great than ($F = 6.58, p < 0.05$) model 1, which was indication that with the addition of LOS, the explained variation in the organizational performance had increased than error variance.

Regression coefficient of organizational performance for line-of-sight moderating impact was positive and significant ($B = 0.113, p < 0.01$). Similarly the t statistics had also increased from ($t = 4.29, p < 0.05$) to ($t = 4.40, p < 0.05$) in model 2. This confirmed second hypothesis ($H2$) of this study, which stated that the LOS moderates the relationship between vertical fit and the organizational performance. Hence, the interactive effects of vertical fit and LOS do play role in enhancing the organizational performance.

4.2. Findings

Major findings of this research study are that the interactive effects of vertical fit and line-of-sight had an ability to explain about 21 % of variation in the organizational performance as compare to 19.6 % explained variation by vertical fit alone. Similarly, the vertical fit has a positive and significant impact on the organizational performance ($F=6.58, p<0.05$) and the line-of-sight moderates the relationship between vertical fit and the organizational performance ($F=6.83, p<0.05$). Hence, firms with matched combination of HRM and business strategies did outperform the unmatched ones. The results have clearly predicted that the managers/executives' understanding of strategic human resource management provides evident basis and direction to the achievement of organizational objectives supported by employee incorporation. This result is according to the study of (Bird & Beechler, 1995; Huang, 2001; Wang & Shyu, 2008). Business strategies are usually developed at the top level but in real time efforts it is general employee who is working at lower level for realization of those strategic objectives. When line-of-sight plays its role then organizational performance improves more because organizational objectives and missions turn out to be clearer to general employee too and with this clarity their level of contribution also increases.

Among the other findings, the results of correlation metrics has highlighted the importance of relationship among the variables of total employee work experience, organizational age, total employee number, vertical fit, and organizational performance. The vertically fit organizations have been observed with more employee work experience and organizational performance. The relationship between vertical fit and total employee

experience could be two-way. It can be stated that those organizations where business objectives were targeted by incorporating human resources' interest through facilitating human resource practices, were able to retain the employee, hence giving the more chance in increasing the total employee work experience. Similarly, those organizations holding more experienced employees would be able to develop more understanding with its business objectives, which would ultimately helpful for achieving better organizational performance. Another finding was the relationship between organizational age and total employee work experience (0.341, $p < 0.01$), similarly, between organizational age and total number of employees (0.245, $p < 0.05$). This relationship showed that those organizations with more number of organizational operational years were having more number of total employees which directly or indirectly reflected better organizational HR policies & strategies (Bennett et al., 1998) and eligibilities of these HR strategies to bound people for longer period of time.

Another interesting result of this study is the prevalence of particular business strategy and HRM strategy in service industry firms. In case of business strategy, 89 firms out of 109 were either defender or analyzer. Similarly, out of 109 firms, 107 firms were either accumulator or facilitator. These results clearly indicate that most of the firms are inclined to behave in preplanned, less risk taking concerns and believe in adaptation of environmental changes in reactive way. Most of the firms in Pakistan service industry are keen acquirer of employees with latent potential, which could be polished and trained according to organizational needs as it is cost efficient also. As far as analyzer or facilitator firms are concerned, they are limited to the inclusion of only those innovative services/packages that are usually time-based and in very few areas of whole

organizational functions, like in banking sector the innovation is just limited to the offering of new interests or markup rates under new name policies. So, this could be one of reasons that most of the analyzer firms are in favor of adopting accumulator HRM strategy.

CHAPTER 5

CONCLUSION

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Based on the contingency theory, the aim of this study was to investigate the impact of vertical fit on the organizational performance and the role of line-of-sight as moderator on the relationship between vertical fit and organizational performance in service industry of a developing economy country like Pakistan. The results have clearly supported and confirmed both hypotheses (*H1* and *H2*) of this research study. Contingency theory holds that the relationship between the respective dependent and independent variables is different under different conditions or other contingent variables. Those firms that were following HRM strategies according to their respective business strategies, they were playing vital role in enhancing their organizational performance as compared to those that were not. The findings of positive and significant impact of vertical fit on the organizational performance are consistent with the research findings of (Wang & Shyu, 2008; Huang, 2001; Bird & Beechler, 1995).

The major contribution of this study was the confirmation that interactive effects of vertical fit and line-of-sight enhance organizational performance more than that of just vertical fit. This interactive effect was able to explain about 21 % of variation in the organizational performance as compare to 19.6 % explained variation by vertical fit alone. This shows that general employee's understanding with organizational mission,

objectives and their recognition being a contributor to those objectives plays vital role in enhancing the organizational performance. This indicates that the understanding of organizational missions and objectives is not just limited to the understanding of executives or managers. For proper strategy implementation and achievement of organizational missions require general employees' participation too. This actually gives them sense of being integral part of their organization and solves many other management issues for better organizational performance.

5.1. Implications

The results of this study also have applied implications for organizations. Firstly, those firms which focus more innovatively on creating the vertical fit between business strategy and HRM strategy can maintain sustainable competitive advantage. This requires in depth understanding of business strategy and then concentrating on proper development of HR strategy. This may involve the combinations of different HR practices, which best suits the requirements of business strategy, are able to gain competitive advantage. Secondly, firms' attention and contribution toward the employees' understanding of business missions and objectives can motivate general employee to find the ways through which they can contribute to organizational objectives. Lastly, the role of HR managers has become more vital and complex, they have to research out and design most effective HRM systems and also make them functional with the organizational business strategy. More vertical fit means longer employee tenure and better organizational performance (Huang, 2001).

5.2. Limitations

This research study also has some limitations. One limitation of this study is convenience-sampling technique that was applied to select the firms from Pakistani service industry. This makes it difficult to generalize the results so random sampling technique should be used and this can be suggested for future SHRM researchers.

Secondly, the sample size of respondents was small. With the increase in the sample size the results would be clearer and increase the level of confidence. 109 firms are not enough to represent the actual target population (service industry) from which they were selected conveniently. Although some time this is not the matter of choice for researchers because usually respondents do not want to cooperate with them.

Thirdly, selected HR practices sets were those, which were frequently in use in most of the Pakistani organizations. Some more HR practices can be added or the set of HR practice can be comprised of different practices.

5.3. Recommendations

As future research recommendations, firstly, it is highly recommended to use random sampling for choosing the sample from target population. This will highlight the role of vertical fit more in general way for enhancing the organizational performance.

Secondly, the future study can enhance the contribution of the vertical fit to organizational performance by considering the fit on some extent/degrees, means taking it on Likert scale rather than on nominal scale. In this way the role of those firms can be tackle which are although not following the true vertical fit but still contributing to the organizational performance. In this study, 55 firms were those which were not having fit

but it does not mean that they were not contributing any thing to their organization. Degrees of fit will make it clearer that those firms which are on 'this some' level of fit are able to contribute 'this some' to their respective organizational performance. In short, this will be helpful to find the contribution of different extent of vertical fit to organizational performance.

Thirdly, different sets of HR systems should be developed by considering HR practices, for corresponding business strategies (Delery & Doty, 1996; Miles & Snow, 1978) then the role of vertical fit should be studied. This will also highlight the role of those human resource practices that are normally ignored, like the employee participation in organizational decision, and absence and leave issues.

Fourthly, the impact of vertical fit should be investigated in manufacturing industry of developing economy like Pakistan, to confirm whether or not vertical is able to produce significant and positive results there as it did in service industry.

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APPENDIX

“Questionnaire Items Retained for Analysis”

(From Top manager/ HR manager)

Dear Respondent:

I am M.Phil (MGT) student at International Islamic University, Islamabad, and conducting research on “Interactive effects of vertical fit and line of sight on the organizational performance?”

The aims of this paper are to empirically examine the impact of business strategy and HR strategy integration (vertical Fit) on the organizational performance and explore the moderating role of ‘line of sight’ on the relationship of vertical fit and organizational performance.

You are requested to take 10 minutes out of your busy schedule to fill this questionnaire that comprises two parts. Please fill both parts completely and carefully. Your participation will remain confidential. Your cooperation is highly appreciated. If you need findings of this research please send a request to dawnmbait@hotmail.com

Part A:

Note: Please fill the following blanks with complete information.

Name of the Employee: -----

Your phone/cell number:-----

Name of the Organization:-----

Head office (in which city?): -----

Your Education: -----

Your designation: -----

Your total work experience (in years) -----

Type of organization (banking, transportation, courier etc): -----

Your work experience in this firm (in years) -----

Total no. of Employees in firm -----

Total no. of employees in HR department -----

Organization's total capital (in round figures):-----

Life of organization in years (Please tick the appropriate checkbox below):

< 10

10-20

21-30

30+

Part B:

Note: Please encircle any one statement under each category, the statement that is closer to your business strategy. In this way you will encircle 11 possible statements.

1. **Product-market domain.** In comparison to other competitors, the services which we provide to our members are best characterized as:

- (a) Services which are more innovative, continually changing and broader in nature throughout the organization and marketplace. (P)
 - (b) Services which are fairly stable in certain units/departments and markets while innovative in other units/departments and markets. (A)
 - (c) Services which are well focused, relatively stable and consistently defined throughout the organization and marketplace. (D)
 - (d) Services which are in a state of transition, and largely based on responding to opportunities or threats from the marketplace or environment. (R)
-

2. **Success posture.** In contrast to other competitors, my organization has an image in the marketplace as an organization which:

- (a) Offers fewer, selective services, which are high in quality. (D)
 - (b) Adopts new ideas and innovations, but only after careful analysis. (A)
 - (c) Reacts to opportunities or threats in the marketplace to maintain or enhance our position.
 - (d) Has a reputation for being innovative and creative. (P)
-

3. **Surveillance.** The amount of time my organization spends on monitoring changes and trends in the marketplace can best be described as:

- (a) We are continuously monitoring the marketplace. (P)
- (b) We really don't spend much time monitoring the marketplace. (D)
- (c) We spend a reasonable amount of time monitoring the marketplace. (A)
- (d) We sometimes spend a great deal of time and at other times spend little time monitoring the marketplace. (R)

4. **Growth.** In comparison to other competitors, the increase or losses in demand, which we have experienced, are due most probably to:

(a) Our practice of concentrating on more fully developing those markets, which we currently serve. (D)

(b) Our practice of responding to the pressures of the marketplace by taking few risks.®

(c) Our practice of aggressively entering into new markets with new types of service offerings and programs. (P)

(d) Our practice of assertively penetrating more deeply into markets we currently serve, while adopting new services only after a very careful review of their potential. (A)

5. **Technological goal.** One of the most important goals in this organization, in comparison to other competitors, is our dedication and commitment to:

(a) Keep costs under control. (D)

(b) Analyze our costs and revenues carefully, to keep costs under control and to selectively generate new services or enter new markets. (A)

(c) Insure that the people, resources and equipment required to develop new services and new markets are available and accessible. (P)

(d) Make sure that we guard against critical threats by taking whatever action is necessary. (R)

6. **Technological breadth.** In contrast to other competitors, the competencies (skills) which our managerial employees possess can best be characterized as:

(a) Analytical: their skills enable them to both identify trends and then develop new service offerings or markets. (A)

(b) Specialized: their skills are concentrated into one, or a few, specific areas. (D)

(c) Broad and entrepreneurial: their skills are diverse, flexible, and enable change to be created. (P)

(d) Fluid: their skills are related to the near-term demands of the marketplace. (R)

7. **Technological buffers.** The one thing that protects my organization from other competitors is that we:

- (a) Are able to carefully analyze emerging trends and adopt only those that have proven potential. (A)
 - (b) Are able to do a limited number of things exceptionally well. (D)
 - (c) Are able to respond to trends even though they may possess only moderate potential as they arise. (R)
 - (d) Are able to consistently develop new services and new markets. (P)
-

8. **Dominant coalition.** More so than many other competitors, our management staff tends to concentrate on:

- (a) Maintaining a secure financial position through cost and quality control measures. (D)
 - (b) Analyzing opportunities in the marketplace and selecting only those opportunities with proven potential, while protecting a secure financial position. (A)
 - (c) Activities or business functions which most need attention given the opportunities or problems we currently confront. (R)
 - (d) Developing new services and expanding into new markets or market segments. (P)
-

9. **Planning.** In contrast to other competitors, my organization prepares for the future by:

- (a) Identifying the best possible solutions to those problems or challenges, which require immediate attention. (R)
- (b) Identifying trends and opportunities in the marketplace which can result in the creation of service offerings or programs which are new to our industry or which reach new markets. (P)
- (c) Identifying those problems, which, if solved, will maintain and then improve our current service offerings and market position. (D)
- (d) Identifying those trends in the industry, which competitors have proven possess long-term potential while also solving problems related to our current service offerings and our current customers' needs. (A)

10. **Structure.** In comparison to other competitors, the structure of my organization is:

(a) Functional in nature (i.e. organized by department-marketing, accounting, personnel, etc.). (D)

(b) Service or market oriented (i.e. departments like pediatrics or Ob/ Gyn have marketing or accounting responsibilities). (P)

(c) Primarily functional (departmental) in nature; however, a service or market oriented structure does exist in newer or larger service offering areas. (A)

(d) Continually changing to enable us to meet opportunities and solve problems as they arise. (R)

11. **Control.** Unlike many other competitors, the procedures my organization uses to evaluate our performance are best described as:

(a) Decentralized and participatory encouraging many organizational members to be involved. (P)

(b) Heavily oriented toward those reporting requirements which demand immediate attention. (R)

(c) Highly centralized and primarily the responsibility of senior management.(D)

(d) Centralized in more established service areas and more participatory in newer service areas. (A)

Scale	Total Agreement	Generally Agree	Slightly Agree	Neither agree nor disagree	Slightly Disagree	Generally Disagree	Total Disagree
	7	6	5	4	3	2	1

1	Individuals in this job have clear career paths within the organization.	7	6	5	4	3	2	1
2	Individuals in this job have very little future within this organization (reverse- coded).	7	6	5	4	3	2	1
3	Employees' career aspirations within the company are known by their immediate supervisors	7	6	5	4	3	2	1
4	Employees in this job who desire promotion have more than one potential position they could be promoted to.	7	6	5	4	3	2	1
5	Extensive training programs are provided for individuals in this job.	7	6	5	4	3	2	1
6	Employees in this job will normally go through training programs every few years.	7	6	5	4	3	2	1
7	There are formal training programs to teach new hires the skills they need to perform their jobs.	7	6	5	4	3	2	1
8	Formal training programs are offered to employees in order to increase their promotability in this organization	7	6	5	4	3	2	1
9	Performance is more often measured with objective quantifiable results.	7	6	5	4	3	2	1
10	Performance appraisals are based on objective, quantifiable results	7	6	5	4	3	2	1
11	The duties of this job are clearly defined	7	6	5	4	3	2	1
12	This job has an up-to-date job description	7	6	5	4	3	2	1
13	The job description for this job contains all of the duties performed by individual employees.	7	6	5	4	3	2	1
14	The actual job duties are shaped more by the employee than by a specific job description (reverse-coded).	7	6	5	4	3	2	1
15	Individuals in this job receive bonuses based on the profit of the organization	7	6	5	4	3	2	1

Well above Industry Average	Generally above Industry Average	Slightly above Industry Average	Neither above nor below	Slightly below Industry Average	Generally below Industry Average	Well below Industry Average
7	6	5	4	3	2	1

Organizational Performance (over the past three years)

1	Average return on investment.	7	6	5	4	3	2	1
2	Average profit	7	6	5	4	3	2	1
3	Profit growth.	7	6	5	4	3	2	1
4	Average return on sales.	7	6	5	4	3	2	1
5	Average market share growth.	7	6	5	4	3	2	1
6	Average sales volume growth	7	6	5	4	3	2	1
7	Average sales growth.	7	6	5	4	3	2	1

Thanks for your cooperation

(Please attach your visiting card with this questionnaire)
(If you want)

“Questionnaire Items Retained for Analysis”

(From any other employee)

Dear Respondent:

I am M.Phil (MGT) student at International Islamic University, Islamabad, conducting research. You are requested to take 5 minutes out of your busy schedule to fill this questionnaire that comprises two parts. Please fill both parts completely. Your participation will remain confidential. Your cooperation is highly appreciated. If you need findings of this research please send a request to dawnmbait@hotmail.com

Part A:

Note: Please fill the following blanks with complete information.

Name of the Employee: -----

Name of the Organization:-----

Employee’s Education: -----

Employee’s Designation: -----

Your total work experience (in years) -----

Your work experience in this firm (in years) -----

Part B:

Note: Please encircle the appropriate number against each statement, according to the scale given below.

Scale	Strongly Agree	Agree	Indifferent/ Neutral	Disagree	Strongly Disagree
	5	4	3	2	1

- | | | | | | | |
|---|---|---|---|---|---|---|
| 1 | My organization has a mission statement, which clearly reflects the purpose of the organization | 1 | 2 | 3 | 4 | 5 |
| 2 | I am well aware of the mission of my organization | 1 | 2 | 3 | 4 | 5 |
| 3 | I contribute/support my organization’s mission statement | 1 | 2 | 3 | 4 | 5 |

Thanks for your cooperation

Pakistan Service industry firms

Data was collected from following service providing organizations.

Banks

Allied Bank Limited
Asian Development Bank (Adb)
Askari Commercial Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Citibank
Crescent Commercial Bank Limited
First Women Bank Limited
Habib Bank Limited
Industrial Development Bank of Pakistan
Islamic Investment Bank Ltd.
Kasb Bank Limited
Khushhali Bank
Meezan Bank Limited
Muslim Commercial Bank Limited
Mybank Limited
National Bank of Pakistan
NIB Bank limited
PICIC Commercial Bank Limited
Prime Commercial Bank Limited
Silk Bank Limited
SME Bank Limited
Soneri Bank Limited
Standard Chartered Bank
State Bank of Pakistan

The Bank of Punjab
Union Bank Limited
United Bank Limited
Zarai Taraqiati Bank Limited
Habib Metropolitan Bank Limited
Standard Chartered Bank

Restaurants/ hotels

Four Seasons, Bahawalpur
La Taska, Bahawalpur
Shangrilla, Bahawalpur
Panda, Bahawalpur
Al_Maidah, Bahawalpur
Zainzibar, Bahawalpur
Pak Continental, Bahawalpur

Courier Services

TCS
The Pioneer
Leopard Courier Service
Speedex Courier
CMS international
Pakistan Cargo services
OCS
Asia courier services

Insurance Companies

EFU Limited
State Life Limited
New Jubilee Life Insurance
Premier Insurance Company
Adamjee Insurance Limited

Telecom Industry

PTCL
Warid Telecom
Mobilink Telecom
Wateen Telecom
Ufone
Telenor Telecom
Zong Telecom

Travel Agencies

Pakistan International Airlines
Shaheen International Airlines
Aero Asia International
Daewoo Bus Service

