

**EXPLORING THE LINKAGES BETWEEN STRATEGIC CAPABILITIES AND  
HRM IN THE KOREAN MANAGEMENT CONSULTING INDUSTRY**

By

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## **ABSTRACT OF THE THESIS**

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In this study, strategic capabilities are proposed as a locus of external fit (i.e., HRM-strategy fit). Then, it is tested whether organizations improve performance through aligning HR practices with intellectual capital of strategic jobs that are crucial to strategic capabilities. Regression analyses of a sample of 46 management consulting firms in South Korea find that legitimizing capability (a strategic capability suggested by this study) improves organizational performance. It is also indicated that both legitimizing capability and organizational performance are increased by the use of (1) a sub-set of HR practices for human capital of senior consultants and (2) a system of HR practices for human capital and social capital of senior consultants. This study contributes to the management literature by illustrating the effectiveness of strategic HRM in relatively new settings (i.e., small organizations, professional service industry, and non-U.S. settings).

Keywords: strategic human resource management; external fit; strategic capabilities; human capital; social capital; strategic jobs; management consulting firms

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## **INTRODUCTION**

Over the last two decades, there has been considerable progress in the field of strategic human resource management (HRM) (Lepak & Shaw, 2008). Strategic HRM researchers have found the positive linkages between HR practices and various dimensions of performance (Dyer & Reeves, 1995). For example, HR practices affect employee commitment (Tusi, Pearce, Porter, & Tropolli, 1997), organizational citizenship behavior (Sun, Aryee, & Law, 2007), employee retention (Batt, 2002; Guthrie, 2001; Huselid, 1995; Sun et al., 2007), labor productivity (Guthrie, 2001; Huselid, 1995; Huselid, Jackson, & Schuler, 1997; Youndt, Snell, Dean, & Lepak, 1996; Sun et al., 2007), operational performance (Youndt et al., 1996), sales growth (Batt, 2002; Collins & Clark, 2003; Collins & Smith, 2006), stock returns (Collins & Clark, 2003), revenue from new products and services (Collins & Smith, 2006), and financial performance (Huselid, 1995; Huselid et al., 1997).

In particular, researchers in this field prove that a system is an appropriate level of theory and analysis. Combs, Liu, Hall, & Ketchen's (2006) meta-analysis demonstrated that systems of HR practices have larger positive effects on organization-level performance than individual HR practices. Combining multiple HR practices into a coordinated system is, consequently, acknowledged as a theoretical basis to take into consideration the additive or synergistic effects among the interrelated HR practices (Combs et al., 2006; Delery, 1998; Huselid, 1995; MacDuffie, 1995).

In addition to the mounting evidence of the direct linkages between HR practices and organizational performance, strategic HRM researchers have increasingly directed their attention toward the mechanisms through which a system of HR practices drives

organizational performance. In this line of studies, a variety of intermediate outcomes have been identified. For instance, the positive relationship between HR practices and organization-level performance has been found to be fully or partially mediated by turnover (Batt, 2002; Huselid, 1995), organizational citizenship behavior (Sun et al., 2007), climates for trust, cooperation, and shared codes (Collins & Smith, 2006), climate for safety (Zacharatos, Barling, & Iverson, 2005), collective human capital (Takeuchi, Lepak, Wang, & Takeuchi, 2007), and top managers' social networks (Collins & Clark, 2003).

Although some meaningful intermediate variables have been well established based on diverse theoretical perspectives, there is a need to broaden and deepen our understanding of the black box in different theories. Linked to resource-based view, subsequently, the value of HRM to strategic success should be examined by asking how HR practices promote strategy implementation. Barney (2001) contends that competitive advantage depends on a capability to implement strategy. Becker, Huselid, & Beatty (2009) provide the concept of strategic capability, which refers to combinations of information, technologies, and human resources in business processes that are essential to strategy implementation. Consistent with these notions, some researchers (e.g., Becker & Huselid, 2006; Lado & Wilson, 1994; Wright, Dunford, & Snell, 2001) assert that HR practices, which are aligned with strategically critical capabilities, are more likely to promote strategy execution. In this sense, the strategic capabilities will be a key intermediate variable between HRM and organizational performance as an appropriate locus of external fit (i.e., HRM and strategy fit) (Becker & Huselid, 2006). Therefore, it



is worth identifying how HR practices should be aligned with strategic capabilities, as little is known about the linkages between HRM and strategic capabilities.

The current study contributes to the strategic HRM literature by addressing this underdeveloped area regarding strategic capabilities as follows. First, I seek to elaborate how HR practices improve organizational performance. For this purpose, I review the earlier studies on external fit of HRM, consider their merit and shortcomings, and then identify the potential of strategic capabilities as a new locus of external fit. Specifically, I argue that HR practices can enhance strategic capabilities and thereby increase organizational performance, when they focus on intellectual capital (i.e., human capital and social capital) of strategic jobs.

Second, I test whether strategic capabilities are enhanced and organizational performance is improved by not only two separate sub-sets of HR practices for human capital and social capital of strategic jobs, but also one HR system encompassing the two sub-sets of HR practices. Drawing on a sample of 46 management consulting firms in South Korea, I extend the study of strategic HRM to a relatively understudied context, (i.e., small organizations, professional service industry, and non-U.S. setting).

By approaching the subject of intellectual capital, strategic jobs, strategic capabilities and strategic HRM in the new setting, I intend to expand our understanding of how HRM can better contribute to the strategic success of organizations.

## **THEORETICAL BACKGROUND AND HYPOTHESES**

### **Prior Research on HRM, Intermediate Outcomes, and Organizational Performance**

A strategic HR system is defined as “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals” (Wright & McMahan, 1992: 298). Strategic HRM research has been conducted at a macro-level of analysis to indicate its impact on organizational performance outcomes (Lepak & Shaw, 2008). The effectiveness of strategic HRM has been found in the relations with a various outcome variables such as employee outcomes, organizational outcomes, financial accounting outcomes, and capital market outcomes (Dyer & Reeves, 1995). Researchers also found that effects of HR systems are larger than effects of individual HR practices (Combs et al., 2006; Delery, 1998; Huselid, 1995; MacDuffie, 1995).

As ample and strong evidence has been cumulated to support the direct positive linkage between HR practices and organizational performance, research focus has moved toward how HR practices influence organizational performance. In this line of studies, one research stream has highlighted the concept of fit: internal fit and external fit (Lepak & Shaw, 2008). Internal fit refers to congruency among interrelated HR practices (Delery, 1998), which posits that the fit among interrelated HR practices generate additive or synergistic effects to increase organizational performance. External fit refers to alignment between HR practices and external factors, especially strategy (Delery & Doty, 1996; Youndt et al., 1996), which predicts that a system of HR practices aligned with a strategy contributes to achieving a strategic goal by eliciting and reinforcing necessary attitudes

and behaviors of employees (Schuler & Jackson, 1987). Obviously, the two fits of HR practices delineate the distinct features of effective HR practices. Taking into consideration the definition of the two fits, however, external fit could conceptually include internal fit. If an HR system is aligned with a strategy, any HR practices in the HR system may tend to have an internal consistency toward the strategy. By integrating the extant concepts of the two fits, thus, external fit may be underscored as a prerequisite of HRM effectiveness.

Although external fit is theoretically acceptable, it has restricted evidence. In Huselid's (1995) multi-industry study, an HR system containing external fit did not turn out to have the significant positive impact on organizational performance. In contrast, several studies dealing with only a single industry substantiated the positive effects of HR practices with external fit. Arthur (1992), for example, found the effectiveness of external fit in 64 U.S. steel mini-mills. MacDuffie's (1995) study indicated that HR practices contributed most to higher productivity and quality when they were aligned with manufacturing strategy in 62 international automotive assembly plants. Using a sample of 64 US subsidiaries, including 33 Japanese manufacturing and 31 Japanese service firms, Bird & Beechler (1995) demonstrated that subsidiaries with matches between business strategies and HR strategies outperformed those with mismatches. By matching administrative HR practices with cost strategy, and human capital enhancing HR practices with quality and flexibility strategies, Youndt et al. (1996) found that these linkages between manufacturing strategies and HR practices increased performance in 97 metal-working industry plants.

While the notion of external fit is theoretically compelling, the aforementioned empirical studies are problematic. First of all, the empirical evidence to support the positive effects of external fit is theoretically underdeveloped. In terms of quantity, only a small number of studies have provided significant evidence. Additionally, in terms of quality, most of the evidence was derived from manufacturing contexts. The small number of manufacturing industry-sided evidence compromises the generalizability of the evidence found regarding external fit. However, the specific context approach, I suggest, is still instructive in examining external fit because it is better suited to account for the variability of contingencies. Theorizing external fit, therefore, needs more evidence from a variety of settings beyond manufacturing context.

Second, most prior research on external fit, unfortunately, gave only a superficial treatment of strategic HR systems. Typically, researchers have used a simple typology of strategy such as differentiation, focus, and cost reduction as suggested by Porter (1980). Consequently, this approach led to only two or three bundles of HR practices in relation to such strategies. Despite the significant results found in the empirical work employing the simple typology of strategies and HR practices, the presence of such contingencies may not be enough to illustrate how an HR system with external fit enables strategic success. This shortcoming may be due to oversimplifying the typology of strategies and HR practices, which overlooks the uniqueness of HR practices across organizations as well as how a particular bundle of HR practices precisely facilitates implementing strategy (Becker & Huselid, 2006; Lado & Wilson, 1994). In other words, even though two organizations pursue the same strategic orientation, they may implement it differently. As a result, different implementation may demand differential capabilities

and reliance on the performance of different jobs or employees. Nonetheless, prior empirical studies that accept the simple typology of contingencies were prone to assume that the same bundles of HR practices have the same strategic impacts, and all employees and jobs contribute to organizational performance identically. In fact, however, each employee and each job has a differential strategic value (Huselid, Beatty, & Becker, 2005; Lepak & Snell, 2002; Pfeffer & Davis-Blake, 1987). A way to overcome this oversimplification is to consider strategy implementation rather than strategy *per se*. As Barney (2001) noted, strategy implementation is more important than strategy planning in obtaining a competitive advantage. With this notion, an HR system needs to be embedded in an organizational capability to execute strategy (Becker & Huselid, 2006; Lado & Wilson, 1994; Wright et al., 2001). In this regard, research on external fit of HR practices should examine the substance of how an HR system promotes strategy execution within strategic jobs better positioned to affect strategic capabilities, which underlies strategies.

### **Strategic Capabilities**

Strategic capabilities are defined as combinations of resources (e.g., information, technologies, and human resources) which are essential in strategically critical business processes (Becker et al., 2009; Huselid et al., 2005). Originally, an organizational capability refers to not a single resource but a distinctive and superior way of allocating resources in a particular business process (e.g., product development, customer relationship, or supply chain management) (Schreyögg & Kliesch-eberl, 2007).

This definition of strategic capability implies two aspects with respect to HRM. One facet of strategic capability is which human resources are allocated in a strategically

important business process. Human resource becomes one of the strategic resources that bring a competitive advantage to an organization (Delery, 1998) if it is valuable and unique (Barney & Wright, 1998). Thus, it may be a plausible argument that a strategic capability is strengthened when valuable and unique human resources are allocated into a strategically critical business process.

The other facet of strategic capability is how the strategically allocated human resources perform their jobs in the strategic business process. In essence, strategy refers to choosing a different set of activities to create a unique value attracting markets or customers (Porter, 1996). In a similar vein, a strategic capability, arguably, may be higher when the employees who take charge of strategic jobs in the strategic business process carry through specific strategic activities by effectively utilizing given resources (i.e., technology and information).

### **Strategic Jobs**

Organizations can expect better meet their strategic goals if they distinguish strategic jobs or employees from non-strategic ones and manage those accordingly (Becker et al., 2009; Huselid et al., 2005; Lepak & Snell, 2002). Strategic jobs refer to jobs that are critical to harness a strategic capability in implementing a strategy (Huselid et al., 2005). As Lawrence & Lorsch (1967) noted, organizations differentiate into sub-units at lower hierarchical levels, which tend to develop unique attributes (i.e., goals, specialization, and discrepancy) in order to adapt to given external environments. Related, jobs within such sub-units may develop different attributes depending on the requirements of external environments. One of the possible attributes is a job's criticality,

which may differ from job to job within the same organization (Pfeffer & Davis-Blake, 1987). Similarly, the notion of criticality is extended to people. The high performance of strategically important employees, rather than all employees, is a better indicator of organizational performance (Delery & Shaw, 2001). Therefore, it follows that organizations need to put the best human resources into the strategic jobs that are most influential to strategy execution (Huselid et al., 2005). Evidencing this argument, Humphrey, Morgeson, & Mannor (2009) showed that high investment in strategic core roles significantly improves organizational performance. Consistent with human capital theory, where “human resource management practices are seen as investments in human capital” (Snell & Dean, 1992: 469), this finding highlights the need to focus on the strategic jobs in increasing organizational performance.

As defined above, strategic capabilities rely on the activities of strategic jobs. For example, although both Nordstrom and Costco pursue customer satisfaction to increase performance (i.e., sales growth and shareholder value), they emphasize different strategic capabilities, thereby employing different strategic jobs; Nordstrom emphasizes roles of sales associates to provide personalized service and advice, whereas Costco relies on purchasing managers to merchandise high demand products with low price (Huselid et al, 2005). This comparison illustrates that quite different strategic capabilities can be utilized among organizations having an identical strategic goal.

This distinction is crucial in examining organizational performance, as it invites us to more closely examine the role of particular strategic jobs and the individuals trusted to perform these duties (i.e., the strategic job holders). It theoretically follows, then, that

organizational performance can be best improved by HR practices aligned with strategic capabilities, considered as an aggregate of the activities of strategic jobs.

### **Targeting HR Practices for Intellectual Capital of Strategic Jobs**

If it is true that strategic jobs performance determines strategic capabilities, HR practices should aim to enhance what makes for successful strategic jobs performance. Strategic jobs can outperform with higher intellectual capital, which is defined as, “the sum of all knowledge an organization is able to leverage in the process of conducting business to gain competitive advantage” (Youndt, Subramaniam, & Snell, 2004: 337). According to the knowledge-based view (Grant, 1996), organizations exist for their application of knowledge created and possessed by individual members within the organizations. In comparison to other jobs, intellectual capital may be more significant for strategic jobs which undertake complex and uncertain tasks of value creation in strategic business processes. Insofar as intellectual capital is fundamental to establish strategic capabilities (Argote & Ingram, 2000), therefore, it may be necessary that HR practices are designed and implemented to increase intellectual capital of strategic jobs.

According to Youndt et al. (2004), researchers have come to a broad consensus that intellectual capital consists of two sub-categories; one is human capital, which is defined as the knowledge, skills, and abilities individual employees possess (Becker, 1964), and; the other is social capital, which is defined as the knowledge residing in groups and networks of employees (Nahapiet & Ghoshal, 1998)<sup>1</sup>. Youndt et al. (2004)

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<sup>1</sup> Some researchers mentioned organizational or structural capital (Bontis, 1996; Subramaniam & Youndt, 2005; Youndt et al., 2004). Youndt et al. (2004: 338) defined organizational capital as “institutionalized knowledge and codified experience stored in databases, routines, patents, manuals, structures, and the like,” which organizations actually own. Since this study aims to identify the effects of HRM on intellectual



revealed that human capital and social capital exist simultaneously in organizations.

Drawing upon this more integrative view, both human capital and social capital are regarded in this study as two talent drivers to enhance strategic capabilities.

HR practices are predicted to enhance strategic capabilities when they are targeted for human capital of strategic jobs. Human capital has been broadly acknowledged as a determinant of individual job performance. Critical jobs, according to Hickson et al. (1971), demand a greater ability to deal with uncertainty. There may be more uncertainty when creating unique or new values for customers versus improving upon established universal values. Related, human capital theory contends that higher human capital can better address such uncertainties (Becker, 1964; Skaggs & Youndt, 2004; Snell & Dean, 1992). Applying this linkage between task uncertainty and human capital to strategic jobs, it is expected that strategic job holders will perform better when equipped with higher job-related knowledge, skills, and abilities. Consequently, human capital is more important in the strategic job dealing with higher uncertainty.

Some researchers (e.g., Kang & Snell, 2009; Ostroff & Bowen, 2000; Snell & Dean, 1992) have revealed that HR practices positively affect human capital. As Snell & Dean (1992: 469) stated, “Human capital is the result of a firm’s making a deliberate investment either through hiring certain individuals on the market or developing them in-house.” Organizations can obtain human capital advantage through effective HR practices of acquiring and retaining exceptional human resources; that are closely related to their value creation and strategic orientation (Lepak & Snell, 2002; Wright et al., 2001), and; that are difficult to be imitated by other organizations (Barney & Wright, 1998). If

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capital of strategic job holders, it proceeds exclusively with human capital and social capital which are employee-based.

organizations effectively manage human capital of strategic jobs, they will enhance their strategic capabilities. Unfortunately, however, there has been no empirical evidence on the strategic capabilities enhancing effects of HR practices aligned with human capital of strategic jobs. Hence, it is worth attesting a following hypothesis.

*Hypothesis 1a. HR practices targeted for human capital of strategic jobs will be positively related to strategic capabilities.*

In addition to human capital, which is possessed by individual employees, HR practices are predicted to enhance strategic capabilities by targeting social capital, which is latent in both internal and external relations (e.g., customers, suppliers, and partners) of individual employees (Youndt et al., 2004). As Jackson & Schuler (1995: 241) argued, “The potential value of human capital can be fully realized only with the cooperation of the person,” because social relations among employees provide a larger base of knowledge resources for organizations. According to social capital theorists, social capital embedded in internal relations prepares chances to exploit information, knowledge, and skills that already exist in an organization; in contrast, social capital embedded in external relations makes opportunities to explore new information, knowledge, and approaches that are not present in an organization. Through the social capital cultivated from internal and external relations of employees, therefore, organizations can apply by far more knowledge to their unique value creation. Furthermore, strategic job holders within these organizations who have more social capital are likely to perform better because they can use new knowledge, skills, and

approaches beyond their human capital in coping with uncertainty, which newness inevitably accompanies.

Social capital is developed and sustained by appropriate HR practices (Collins & Clark, 2003; Kang & Snell, 2009). Kang & Snell (2009) suggested that employee relations practices (e.g., attachment and socialization) have the most significant impact on social capital. Collins & Clark (2003) also indicated that HR practices motivate employees to build social capital by evaluating and compensating for social capital performance. There has been no research, however, that empirically has examined the strategic capabilities enhancing effects of HR practices aligned with social capital of strategic jobs. Hence, this research contributes to the management literature by attesting a following hypothesis.

*Hypothesis 1b. HR practices targeted for social capital of strategic jobs will be positively related to strategic capabilities.*

Organizational performance depends on HR practices that develop an appropriate knowledge base (Pfeffer, 1994), because knowledge, skills, and abilities of employees have an economic value enabling organizations to be productive and adaptable (Becker, 1964). Since investing in employees' human capital carries both out-of-pocket and opportunity costs, the investment is only justified if it produces future returns via increased productivity (Duncan & Hoffman, 1981). One of the possible ways to justify such investments may be that HR practices increase the likelihood of achieving strategic goals by being aligned with strategic orientation. Regarding the economic value of human capital, Youndt et al. (1996) found that HR practices focusing on human capital

enhancement was directly related to multiple dimensions of operational performance. Based on the external fit perspective, they further found that the positive performance effects of human capital enhancing HR practices were stronger under the quality strategy. With respect to the economic value of social capital, Collins & Clark (2003) demonstrated that organizations increased performance through the use of social capital enhancing HR practices. Taking the significance of strategic jobs for organizational success into account, this line of arguments and evidence may suggest that organizations can improve performance through targeting HR practices for human capital and social capital of strategic jobs. Hence, following two hypotheses are provided:

*Hypothesis 2a. HR practices targeted for human capital of strategic jobs will positively influence organizational performance.*

*Hypothesis 2b. HR Practices targeted for social capital of strategic jobs will positively influence organizational performance.*

The strategy literature has indicated the close relations between strategic capabilities and multiple dimensions of organizational performance: for example, architectural and specialized marketing capabilities on business unit performance (Vorhies, Morgan, & Autry, 2009), marketing capability on organizational financial performance (Morgan, Vorhies, & Mason, 2009), and innovative capability on organizational performance (Zaheer & Bell, 2005). As discussed earlier, this study predicts that the level of strategic capabilities depends on performance of strategic jobs, to which HR practices can strategically contribute by strengthening human capital and social capital that the strategic jobs require.

Taken together, it would be possible that the two sub-sets of HR practices for human capital and social capital of strategic jobs positively affect organizational performance through mediation of strategic capabilities.

*Hypothesis 3a. HR practices targeted for human capital of strategic jobs will positively influence organizational performance through mediation of strategic capabilities.*

*Hypothesis 3b. HR practices targeted for social capital of strategic jobs will positively influence organizational performance through mediation of strategic capabilities.*

The last consideration of this study adopts a system approach. Strategic HRM theorists contend that a bundle of HR practices is a more valid level of theory and analysis than individual HR practices. The system approach enables researchers to figure out complementarities among HR practices (Becker & Huselid, 1998), because interrelated HR practices (e.g., recruiting, selection, performance appraisal, compensation, training and development) operate as a system to achieve organizational goal (Delery & Doty, 1996; Snell, Youndt, & Wright, 1996). In fact, this system approach has been prevalent in prior work dealing with the performance improvement effect of managing human resources (e.g., Arthur, 1992; Batt, 2002; Huselid, 1995; Ichniowski, Shaw, & Prennushi, 1997). Alongside this system approach, this study also allows for the complementarities between the two different sub-sets of HR practices for human capital and social capital. Since those two sub-sets of HR practices were independently regarded and examined as the two separate HR systems in prior research, it may be a meaningful

attempt to synthesize both human capital and social capital enhancing HR practices into a single system and then test its effects. Regarding the system approach, therefore, this study examines two effects of the HR system for intellectual capital of strategic jobs: direct effects on the enhancement of strategic capabilities and the improvement of organizational performance, as well as an indirect effect on the improvement of organizational performance via the enhancement of strategic capabilities.

*Hypothesis 4. A system of HR practices targeted for intellectual capital of strategic jobs will enhance strategic capabilities.*

*Hypothesis 5. A system of HR practices targeted for intellectual capital of strategic jobs will increase organizational performance.*

*Hypothesis 6. A system of HR practices targeted for intellectual capital of strategic jobs will increase organizational performance through mediation of strategic capabilities.*

## **METHOD**

### **Research Context: The Management Consulting Industry**

Data collection from a single industry can be advantageous to test the linkages amongst HR practices, strategic capabilities, and organizational performance for both theoretical and methodological reasons. Theoretically, “competitive advantage is an intra-industry issue” (Porter, 1985: 11), and the value of organizational capabilities is different across contexts (Collis, 1994). Examining external fit should thus consider variations in strategic capabilities as a source of competitive advantage across industries.

Methodologically, a single industry approach is more instrumental in identifying and measuring the most critical sources for organizational success (Dess, Ireland, & Hitt, 1990), in “controlling for the impact of industry characteristics on the perceptions of strategic issues” (Thomas, Clark, & Gioia, 1993: 246), and in minimizing “observed between-organization differences if organizations are homogeneous within industries with respect to the variables of interest” (Klein, Dansereau, & Hall, 1994: 210). As noted earlier, prior empirical studies, which found significant effects of external fit, were usually conducted in a single research context. Although the single industry approach tends to be restricted in terms of generalizability and sampling frame, it has a merit in better assessing constructs of interest in the study that delves into strategic issues.

With these recommendations in mind, this research applies the aforementioned theoretical framework exploring the linkages amongst organizational performance, strategic capabilities, and HR practices targeted for intellectual capital of strategic jobs to the management consulting industry. Alvesson (2000: 1103) stated, “Personnel is the most most significant - sometimes the only significant-resource” in the knowledge-

intensive firms. As one of the knowledge-intensive firms, the management consulting firms are conceived to be the appropriate research context to better assess the relationships between the constructs of interest.

Management consulting is an independent contracted advisory service provided by qualified management consultants who assist a client organization with identifying, analyzing, and solving management issues (Greiner & Metzger, 1983). The service boundary of management consulting is providing general management advice within a strategic, organizational, or operational context (Canback, 1998). As a knowledge-intensive service, the core output of consultancy is knowledge (Sarvary, 1999). Thus, the success of a management consulting project output depends on a management consulting firm's capability to mobilize and synthesize knowledge to resolve a client's problems (Robertson, Scarbrough, & Swan, 2003). Furthermore, as a service provider, a management consulting firm is required to integrate its capability with the client's needs (Dougherty, 2004). Since consulting projects are always client driven; a client initiates a consulting project when it faces a particular business issue and then the client judges whether the consulting project output is satisfactory, management consulting firms should always produce unique service outputs for each client. In other words, the substance of consultancy is delivering a knowledge-based output that is contextualized for each client's unique position.

Unlike in markets that deal in tangible goods, it is extremely difficult in the management consulting market, which deals in intangibles, to measure the quality of a particular consulting service (Clark & Salaman, 1998b; Glückler & Armbrüster, 2003). This distinctive feature of the management consulting market - both a client and a



management consulting firm face uncertainty on a final output - creates a situation in which the competitive advantage of management consulting firm is established only when the management consulting firm can legitimize its consulting outputs to clients. Gaining legitimacy occurs when the client accepts the recommendations of the contracted management consulting firm (Suchman, 1995) and realizes the effectiveness of the solutions. Due to the previously mentioned intangibility that often poses a major challenge to quality assurance (Clark, 1993), legitimizing consulting output can be a strategic capability of this management consulting industry.

Legitimizing capability consists of five strategic activities: problem defining, goal setting, problem solving, after-delivery service, and project management. These activities were identified as critical success factors of a management consulting firm by Kumar, Simon, & Kimberley (2000)<sup>2</sup>. These five strategic activities are conducted in the operational process of every consulting project and can be facilitated by human capital and social capital of the consultants, as suggested as two talent drivers in this study.

First, a significant component of a professional service organization's knowledge is embedded in individual employees (Starbuck, 1992). Human capital of consultants is a critical criterion for potential clients when selecting consulting firms, because it allows them to predict the quality of the services they will receive (Hitt, Bierman, Shimizu, & Kochhar, 2001). Consultants usually face uncertainty in defining problems, setting goals, and managing projects. Human capital theory predicts that the ability to deal with ambiguity is positively related to the level of human capital (Becker, 1964). Indeed, consultants with higher human capital can reveal better performance in such uncertain

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<sup>2</sup> Kumar et al. (2000) originally suggested 21 factors including values, attitudes, and activities. This study focuses on only activities under the assumption that a strategic capability comprises strategic activities.

tasks. Thus, the consulting output is likely to be more accepted when produced by consultants with prestigious credentials such as graduates of top business schools and expertise cumulated from various successful consulting experiences.

Second, the consultants' social capital also plays a critical role in increasing the legitimizing capability through promoting the five strategic activities. Management consulting firms tend to sell the services of consulting project teams rather than services of the firms (Jang & Lee, 1998). Hence, in order for a consultant's human capital to be used more instrumentally in conducting the five strategic activities, cooperation and teamwork among consultants is significant. That is, building social capital through internal relationships can positively influence knowledge creation by facilitating knowledge exchange among individuals (Smith, Collins, & Clark, 2005). Thus, internal relationships among project team members are fundamental for enhancing the firm's legitimizing capability. In addition to the social capital embedded in internal relationships, the relationships consultants have with the client can determine the quality of a consulting project and increase the legitimacy of its outputs. The development of a valuable solution demands that consultants thoroughly understand the idiosyncrasies of client organizations (Canback, 1999). When consultants identify problems, set goals, and produce solutions, they usually need a client's knowledge (e.g., relevant data, information, and opinion). Hence, if the client acts defensively and does not provide all the knowledge necessary for a good consulting output, a consulting project success is unlikely (Jang & Lee, 1998). Also, since setting clear goals of projects is essential in managing a client's expectations (Weiss, 1996), consensus on a scope and a depth of a consulting project needs to be formed through the cooperation and commitment of the client. Furthermore,

as clients can provide new ideas and immediate feedback on developing solutions, a good consulting firm-client relationship is a vital element in creating successful outcomes (Clark & Salaman, 1998a) and one that contributes to social capital.

Legitimizing capability enhanced by human capital and social capital of consultants can create two client values - customization and feasibility. How well a consulting service fits with a client's unique needs is an important dimension in measuring the success of consulting output (Brentani & Ragot, 1996). Besides, since the key to a successful management consulting job is not only a brilliant solution to a problem, but also a highly successful implementation of the results of the consulting activities, combining with capabilities of a client (Fleming, 1989), a consulting service output should be long-term, realistic, and easily implementable by a client (Kumar et al., 2000). In order to deliver the highly customized output, consultants should be able to precisely define the problems, clearly set the goals, and offer the solutions geared to the specific context of client organization (rather than merely using general approaches). In order to deliver a highly feasible output, consultants also should be able to recommend a viable and appropriate solution, enhance the client's ability to implement the recommended solution, and proactively respond to the client's request for after-delivery service. Project management skills are required for these two values throughout the entire consulting process. Theoretically, one can thus predict that management consulting firms with high legitimizing capability can provide highly customized and feasible outputs to clients, which in turn increases firm performance. Likewise, management consulting firms that are interested in enhancing legitimizing capability can benefit from HR practices targeted for human capital and social capital of consultants. As seen below, the

aforementioned discussion is described in the talent map, which embosses ‘talent drivers’ on the strategy map proposed by Kaplan & Norton (2000) and specifically describes the linkages between talents and strategic success (Becker et al., 2009).

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Based on Figure 1, three constructs are derived: (1) a system of HR practices targeted for human capital and social capital of senior consultants, (2) legitimizing capability as a strategic capability of this industry, and (3) organizational performance comprised of bidding win, growth rate, profitability, and market share. A theoretical framework for the management consulting industry is laid out in Figure 2.

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 Insert Figure 2 about here  
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### **Sample and Procedures**

The sample used in this study is the management consulting firms operating in Korea. The fact that there exists no exact and updated list of the firms made it difficult to create a sampling frame. Thus, several steps were taken to find an alternative way to construct a sampling frame. First, using the list of consulting firms surveyed by Korea Consultancy Association (KCA) in 2005 and the list under the professional services category of company information website of the Korea Chamber of Commerce and Industry (KCCI), the possible firms were drawn. Second, since the lists included firms

offering a broad range of consulting services (e.g., franchise, real estate, and the like), irrelevant firms were excluded. Third, since the lists have not been systematically updated, through an internet search, I checked to make sure each firm exists. Initially, the tentative sampling frame of 731 management consulting firms was generated throughout these steps.

The final sampling frame was determined by the following survey administration procedure, which proceeded from May to November 2009. In the first phase, surveys were mailed to CEOs of the 731 firms. In the second phase, I called all of the 731 firms to encourage participation in survey three weeks after mailing. However, I was unable to make contact with a considerable number of firms because the phone numbers were not in operation. From this fact, I concluded that these firms are no longer in operation. Also, CEOs of some firms told me they could not respond to the survey because they do not offer management consulting services even though their websites indicate they do. After filtering out firms that I could not get in touch with and of which CEOs confessed they are not the management consulting firms, the final sampling frame consisted of 385 management consulting firms. In the last phase of the survey, I encouraged the potential respondents to participate in this survey through emails. From the entire survey administration procedure, data were collected from 46 firms. The response rate is 11.95%.

In order to better assess the impact of HRM on strategic capabilities and organizational performance, I asked the CEOs, at the introduction section of survey, to answer all questions based on objective archival data as well as on opinions of pertinent persons above senior managers who should be versed in this industry and their firms. At the end of the survey, I asked, “How many people participated in completing this

survey?” The surveys were completed mostly by CEOs (64.4%) and other executives (22.2%). The number of participants was 1.70 persons per firm on average and 43.5% firms had more than two participants. The average size of the sample firms, in the past three years, turned out to be 40.44, with a range from 4 to 743.33. Only two firms in the sample have more than 100 consultants (204.33 and 743.33 respectively). Excluding the two largest firms, the three-year average size of the sample firms turned out to be 18.78. The characteristics of this sample and results of descriptive and regression analyses could secure data quality and reduce the threat of common method bias to some extent.

### **Survey Translation Procedures**

Survey items were created following iterative translation procedures (Liao, Toya, Lepak, & Hong, 2009). First, I chose measures written in English and used in prior strategic HRM research, and then I developed measures written in Korean, and modified those to the Korean management consulting industry. Second, five senior management consultants (three in multinational and two in local firms) in the Korean management consulting industry reviewed and corrected these Korean measures to better reflect the real management consulting context and improve question readability. Third, after the practitioners’ review, two HRM professors from two Korean universities further reviewed and corrected the measures. Fourth, a professional translation institution in Korea then translated the questions into English. Last, two Korean Ph.D. and two Korean Master’s students studying HRM at a U.S. university conducted a translation bias check. In this process of survey translation and development, measures were generated in both

Korean and English. The Korean version of survey questions then was sent out to the potential respondents by mail.

## **Measures**

One of the goals of this study is to examine the effects of HR practices differentiated for strategic jobs. Based on preliminary investigation with literature and interviews, the strategic jobs are regarded here as a full-time senior consultant position, because this position generally requires several critical roles such as managing projects, building client relationships, and pioneering practices and businesses. At the start of the survey, to help respondents understand who should be a senior management consultant, a senior consultant is described as follows: “For the research purpose, all items of this survey ask about your full-time consultants...a senior consultant refers to an employee with more than 5 years of working experience in the management consulting industry, or the equivalent working experience and corresponding competencies (that your firm acknowledges).” This guideline was determined through interviews with five management consultants in the Korean market. They all said that it normally takes five or seven years to reach the level of senior consultant. However, they did mention some exceptions: cases of star performers who obtained competencies of senior consultant in a shorter time period. With these opinions in mind, the aforementioned guideline was established. Also, all measures were asked for the last three years (2006-2008), due to the probability that the effects of HR practices on strategic capabilities and organizational performance may take more than one year to occur (Liao et al., 2009).

*HR practices targeted for intellectual capital of senior consultants.* This study suggests the two domains of HR practices, human capital (e.g., Youndt et al., 1996) and social capital (e.g., Collins & Clark, 2003), which particularly reflect the talent drivers in the management consulting industry. To assess how HR practices were implemented over the last three years, I used three items for HR practices enhancing human capital and four items for HR practices enhancing social capital. In a light of the HR practice domain, the current study focuses on four HR practices: selection, project assignment, performance appraisal, and compensation. Selection is thought of as the most important HR practice in the management consulting industry (Quinn, Anderson, & Finkelstein, 1996), suggesting that selection can positively affect both human capital and social capital. As prior research (e.g., Snell & Dean, 1992; Youndt et al., 1996) stressed that selection is the germane practice for the enhancement of human capital, management consulting firms can acquire the best human capital by selecting new senior consultants based on their technical expertise (e.g., knowledge and specialties about industries, companies, management practices, and consulting methods). In addition, the selective screening criteria should include a personality or value required for collaboration (Alvesson, 2004), which is the fundamental to cultivate social capital from internal relationships. Project assignment, corresponding to the input of resources, is considered another key practice to enhance social capital, because the quality of management consulting project output is determined by project teams. To improve the output quality, management consulting firms need to assess two factors in composing project teams. One factor is internal relations between senior consultants and prospective project team members. Good internal relations can facilitate interactions and knowledge creation among the team



members. The other factor is the match between senior consultants' expertise and clients' needs. Since a client relationship starts off with mutual trust, management consulting firms can pave a way for the client relationship by assigning senior consultants whose knowledge and experience are congruent to the client's needs and expectations (Canback, 1998, 1999). Therefore, the two bases (i.e., internal relations and specificity) of project assignment are considered with respect to social capital. Also, performance appraisal can contribute to the enhancement of both human capital and social capital. Performance appraisal improves human capital when it has a developmental focus (Youndt et al. 1996). Multiple sources of performance feedback can be a way to fulfill the developmental focus. Social capital is enhanced by performance appraisal designed to encourage employees to build good relationships with various actors (Collins & Clark, 2003). Management consulting firms can motivate senior consultants to build good relationships with clients by reflecting client evaluations on the senior consultants' job performance. Finally, compensation enables organizations to enhance human capital if it fulfills external equity (Arthur, 1992; Pfeffer, 1994; Youndt et al., 1996), because external competitiveness of overall pay level attracts the best human capital. The seven-item measure for HR practices was generated based on Becker & Huselid (1998). Due to the different scale of seven items, all item scores were standardized for analyses (Way, 2002; Zacharatos et al., 2005). I conducted factor analysis using principal component extraction with varimax rotation. As viewed in Table 1, the measure for HR practices is valid and reliable.

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Insert Table 1 about here  
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In testing hypothesis 1 through 3, I used an index of HR practices targeted for human capital and social capital, respectively. In testing hypothesis 4 through 6, I used a single HR system index encompassing the two bundles of HR practices. This index approach has been comprehensively employed in the field of strategic HRM, because the effects of HR practices can be better assessed by examining a bundle of HR practices rather than HR practices in isolation (Becker & Huselid, 1998; Delery, 1998; Guthrie, 2001; Huselid, 1995; Lepak, Liao, Chung, & Harden, 2006; Lepak & Snell, 2002). An index was calculated by taking the mean value of all pertinent items (Batt, 2002).

***Legitimizing capability.*** As discussed above, the five strategic activities (problem defining, goal setting, problem solving, after-delivery service, and project management) were derived from the management consulting literature (e.g., Kurma et al., 2001). These five strategic activities are composed of the legitimizing capability, as a strategic capability in this study, and defined as an organizational capability to make a management consulting output acceptable to a client. Since workforce competence is a component of workforce qualities for strategic capabilities (Becker et al., 2009), the newly developed five items with a 7-point Likert scale (1 = very low; 7 = very high) asked respondents to estimate their senior consultants' competences for the five strategic activities as compared to competitors in their primary service areas over the last three years. I factor-analyzed each item, using principal component extraction with varimax rotation, and all items were loaded on one factor. Also, the Cronbach's alpha for this scale was .89. Table 2 shows the results of validity and reliability for this scale. The five items were averaged into one construct in order to test the hypotheses.

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Insert Table 2 about here

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***Organizational performance.*** As management consulting firms are extremely sensitive about publicly reporting financial data (Maister, 1993), this study used a subjective measure for organizational performance. Based on Delaney & Huselid's (1996) perceived market performance measure for profit-making organizations, this study considered four aspects of organizational performance in the management consulting industry: bidding win, growth rate, profitability, and market share. On a 7-point Likert scale ranging from much better (7) to much worse (1), respondents were asked to answer the four items as compared to their competitors in major service areas. As viewed in Table 3, all items were loaded on one factor, and the Cronbach's alpha was .87. The four items were averaged into one construct in order to test the hypotheses.

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Insert Table 3 about here

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***Control variables.*** To better assess the linkages among HR practices, strategic capabilities, and organization performance, I controlled for firm size and complexity of consulting projects. Firm size has been commonly controlled in a majority of strategic HRM research. In the management consulting industry, especially, the number of consultants is closely related to organizational capabilities and financial performance. Firm size was measured by asking respondents to indicate the total number of professional management and full-time consultants as of each year's end during 2006-

2008. Then, it was calculated by taking the logarithm of three-year mean value.

Complexity of consulting projects also was controlled for two reasons. First, complexity of consulting projects can affect respondents' perception on their legitimizing capabilities.

While respondents in the firms usually conducting easy projects may estimate their capabilities higher, respondents in the firms mainly conducting difficult projects may evaluate their capabilities relatively lower. Second, the complexity determines a consulting service price. Higher complex consulting projects usually set a higher price (Maister, 1993), implying that complexity is related to financial performance. Due to these reasons, complexity can be an important control variable in this research context.

Building on Maister's (1993) classification and descriptions of consulting projects, I developed three descriptions on consulting projects with high, mid, and low complexity (see Appendix A). Based on the three descriptions, respondents indicated each portion of the management consulting projects that they conducted during 2006-2008. Then, I controlled for the complexity by using the portion of high complex projects.

## RESULTS

Table 4 presents means, standard deviations of the principal variables, and correlations among the variables of interest. Since HR practices scales reflect an average of standardized scores, their means are zero. HR system is highly correlated with the two subsets of HR practices, because the HR system variable is an index including HR practices for human capital and social capital of strategic jobs. In order to test the hypotheses, I used regression analysis with SPSS.

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Insert Table 4 about here  
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### **The Impact of Two Different Sets of HR Practices and a System of HR Practices on Legitimizing Capability**

It was predicted that HR practices targeted for human capital of strategic jobs (Hypothesis 1a), HR practices targeted for social capital of strategic jobs (Hypothesis 1b), and a system of those HR practices (Hypothesis 4) will positively influence legitimizing capability. The results show that HR practices targeted for human capital of strategic jobs ( $\beta = .35, p < .05$  in model 1 of Table 5) and overall HR systems ( $\beta = .39, p < .01$  in model 3 of Table 5) have significant positive effects on the legitimizing capability, whereas HR practices targeted for social capital of strategic jobs (in model 2 of Table 5) do not have a significant effect on the legitimizing capability. Thus, Hypothesis 1a and 4 are supported, but Hypothesis 1b is not supported.

### **The Impact of Two Different Sets of HR Practices and a System of HR Practices on Organizational Performance**

HR practices targeted for human capital of strategic jobs (Hypothesis 2a), HR practices targeted for social capital of strategic jobs (Hypothesis 2b), and a system of those HR practices (Hypothesis 5) were expected to positively affect organizational performance. HR practices targeted for human capital of strategic jobs ( $\beta = .37, p < .05$  in model 4 of Table 5) and overall HR systems ( $\beta = .35, p < .05$  in model 6 of Table 5) have significant positive effects on organizational performance. However, HR practices targeted for social capital of strategic jobs (in model 5 of Table 5) turn out to have an insignificant effect on organizational performance. Therefore, Hypothesis 2a and 5 are supported, but Hypothesis 2b is rejected.

### **The Impact of Two Different Sets of HR Practices and a System of HR Practices on Organizational Performance through Mediation of Legitimizing Capability**

The goal of this study, anticipating the mediation effect of strategic capabilities between HRM and organizational performance (Hypothesis 3a, 3b, and 6), is to uncover how HRM increases organizational performance. To test these hypotheses, I follow Baron & Kenny's (1986: 1176-1177) procedures for testing mediating effect. Since HR practices targeted for human capital of strategic jobs and overall HR systems appear to have significant effects on legitimizing capability (mediating variable) and organizational performance (dependent variable) in prior analyses, Hypothesis 3b and 6 are tested. In model 7 of Table 5, legitimizing capability is found to have a significant positive effect on organizational performance ( $\beta = .27, p < .10$ ), but given the presence of HR practices

for human capital of strategic jobs (in model 8 of Table 5) or overall HR systems (in model 9 of Table 5), the effect of legitimizing capability on organizational performance disappears. Thus, both Hypothesis 3b and 6 are not supported.

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 Insert Table 5 about here  
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### **Power Analysis**

Power refers to the probability of rejecting a false  $H_0$ , and in order to achieve medium effect size at the desired power of .80 for  $\alpha = .05$  with three variables, a sample size of 76 is required (Cohen, 1992)<sup>3</sup>. As seen in Table 6, however, the results of power analyses for the supported models in this study are acceptable. Cohen (1977) suggested that the acceptable level of power is more than .50. The median power of the prior behavioral science studies is estimated to be approximately .37 (Seldmeier & Gigerenzer, 1989, as cited in Colakoglu & Caligiuri, 2008). Each of the supported regression model in this study has more than a power of .54 at  $\alpha = .05$ , three variables, and a medium effect size. Reflecting  $\alpha = .10$  which is appropriate for exploratory studies (Cohen, 1992), overall level of power for the supported regression models turns out to be more than .67; the powers of model 3, 4, and 6 are close to or greater than the desired power of .80.

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 Insert Table 6 about here  
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<sup>3</sup> The desired power of .80 means that there is a 80% probability to detect an effect that a study finds in a population and a 20% probability to engage in a Type II error.

## **DISCUSSION**

The findings of the present study are summarized as follows. First, greater use of HR practices targeted for human capital of strategic jobs tends to increase strategic capabilities and organizational performance. Second, overall HR systems targeted for human capital and social capital of strategic jobs also have direct positive effects on strategic capabilities and organizational performance. Inconsistent with my expectation, HR practices targeted for social capital of strategic jobs have no significant effects on the strategic capabilities and organizational performance. In addition, the mediating effect of strategic capabilities is not found for the HRM-organizational performance linkage.

These findings have at least four theoretical implications. First, the current study confirms the resource-based view which holds that performance difference across organizations can be attributed to the variance in the resources and capabilities of organizations (Barney, 1991, 2001). Legitimizing capability as a strategic capability in the management consulting industry appears to significantly improve organizational performance. This result substantiates the presence of strategic capabilities and its significant impact on organizational performance.

Second, the current study displays the potential of strategic capabilities as a locus of external fit for HRM effectiveness. Bowen & Ostroff (2004: 206) argue that “the foci of the HRM practices must be designed around a particular strategic focus.” Huselid and his colleagues (2005) argue that jobs have differential strategic values depending on strategic focus. Other researchers (e.g., Becker & Huselid, 2006; Lado & Wilson, 1994; Wright et al., 2001) suggest that HR practices should be built into organizational capabilities. The combination of these views supports that HR practices to promote



strategy execution should be aligned with strategic capabilities which are determined by performance of strategic jobs. The present study does not indicate the mediation effect of strategic capabilities between HR practices and organizational performance. In spite of the small sample, however, this study finds direct effects of HRM (i.e., a subset of HR practices for human capital and a system of HR practices for both human capital and social capital) on strategic capabilities and organizational performance. Hence, this study would indirectly suggest that strategic capabilities are an appropriate locus of external fit of HRM.

Third, the present study illustrates that strategic HRM improves organizational performance in relatively new settings such as the professional service industry and smaller organizations. As noted earlier, previous external fit research added positive evidence mainly from the manufacturing industry. Additionally, since smaller organizations might not have formal HR practices (Huselid & Becker, 1996), prior research in this area usually included larger organizations with 100 or more employees (e.g., Huselid & Becker, 1996; Lepak & Snell, 2002). Unlike previous research, this study examines the impact of HR practices with external fit in management consulting firms, which have been relatively less studied in the management literature (Kumar et al., 2000; Semadeni, 2006), and whose three-year average firm size was 40.44 (18.78 except for the two largest firms, 204.33 and 743.33). The findings of this study reveal that strategic HRM can be still effective to improve organizational performance in small organizations and professional service industry.

Fourth, the results of this study imply the significant role of senior or line managers in designing and implementing strategic HRM. Smaller organizations in this

sample are likely to have neither advanced nor even normal HR departments.

Nevertheless, the results show that strategically differentiated HR practices also lead to better performance in these smaller organizations. From this finding, it may be concluded that strategically differentiated HR practices can be inherent in smaller organizations without formal HR departments (Becker & Huselid, 1998), if senior or line managers are involved in strategic HRM activities. Hence, it can be plausible that beyond competencies of HR people (e.g., vice presidents of HR, HR managers, and HR staffs), more strategic HRM, allowing organizations to have HR practices embedded in broader management, requires HR competences of top management team members or line managers who directly engage in operating businesses.

This study provides a practical implication to the management consulting industry. The result that social capital-enhancing HR practices have no significant effects on strategic capabilities and organizational performance should not be interpreted as meaning that social capital is not important in this industry. Taking into consideration that HR systems for human capital and social capital have significant effects on the outcome variables, social capital still can be a key factor for the success of management consulting firms. The crux of these results may be in the priority of foci. Better social capital is likely to be more cultivated from employees with higher human capital than those with lower human capital. That is, social capital-enhancing HR practices may lead to positive outcomes with the use of human capital-enhancing HR practices in management consulting firms. Therefore, the results of this study would imply that management consulting firms need to first consider the enhancement of human capital and afterwards social capital in designing and establishing HR practices.

While this study provides the strategic HRM literature with several implications, it also has limitations. First, the modest sample size limits the ability to generalize the findings of this study. The management consulting firms generally have little incentive to disclose information on their structure and performance (Maister, 1993), making it difficult for researchers to collect data from them (Boxall & Steeneveld, 1999). In fact, many CEOs refused to participate in the survey citing the need to protect sensitive information. Due to the reasons, this study collected data from only 46 firms. In spite of the small sample size, the results of power analyses are compared favorably to extant behavioral science studies (Seldmeier & Gigerenzer, 1989) and the acceptable level (Cohen, 1977).

Second, since the data were collected only from South Korea, there could be concerns regarding the generalizability of the findings to other cultural contexts. In the case that the theoretical framework is derived from a non-culturally specific literature, and the findings are consistent with conceptual arguments developed by strategic HRM researchers throughout the world, however, this should not be a serious methodological concern (Liao et al., 2009). Moreover, given that the management consulting firms usually try to diffuse best practices, and are sensitive to state-of-the art management practices world-wide, there may not be significant differences in business operating styles of the management consulting firms across countries.

Third, a common method bias might not be entirely absent in this study. Although the average number of participants per firm is 1.70 persons, 56.5% of the sample provided information by a single respondent. However, the multiple respondents may be more unchallengeable in the research context of this study. As Bae & Lawler (2000: 513)

stated, “Gaining cooperation from multiple organizational participants is likely to be much more difficult in many Asian countries than it is in the United States.” Thus, application of the most rigorous methodological standards may be more likely to reduce the sample size in any study of the Asian management consulting industry.

Fourth, the findings may be biased due to the low rate of response. This limitation can result from the aforementioned unique attributes of country and industry. However, the final response rate of 11.95% compares favorably to the 6-28% response rates which are typical in strategic HRM research (Becker & Huselid, 1998) as well as to the 10-12% response rates which are typical in the U.S. firm-level research which mailed surveys to top executives (Hambrick, Geletkanycz, & Fredrickson, 1993). Moreover, some researchers argue that nonresponse does not necessarily bring out substantial bias in the results (Schalm & Kelloway, 2001; Zacharatos et al., 2005). As a matter of fact, many of the non-participant firms explained that they are too small to need certain HR practices, which may support the claim that nonresponse does not significantly affect the findings of the current study.

Fifth, this study used a perceived measure for organizational performance, which might increase the potential for measurement error and common method bias. However, there is no source for objective performance data of the management consulting firms in South Korea. As noted earlier, performance data is sensitive to be disclosed in this industry (Maister, 1993). In the absence of objective data, perceived measures can constitute an acceptable and equally reliable substitute (Dess & Robison, 1984). Indeed, perceived performance measures have been used in prior research (e.g., Bae & Lawler, 2000; Delaney & Huselid, 1996). Research has found positive (moderate to strong)

correlations between perceived measures and objective measures for organizational performance (Dollinger & Golden, 1992). Perceived measures for organizational performance, therefore, can be an alternative for objective data.

Based on the discussion, I suggest that future research needs to provide generalizable evidence through using larger samples from multiple management consulting industries in different countries. Also, selecting research contexts where objective data for organizational performance can be obtained, future research will add more compelling evidence to the linkages among HRM, strategic capabilities, and organizational performance. Finally, in order to indicate the effectiveness of HR practices for strategic jobs, future research needs to compare HR practices for strategic jobs with HR practices for overall jobs or non-strategic jobs.

## CONCLUSION

Organizational capabilities essential for strategic success has been widely acknowledged as a source of competitive advantage. Based on the strategic HRM perspective, this study attempted to delineate how HR practices can enhance strategic capabilities. This study suggests that organizations can enhance their strategically important capabilities by identifying key business processes for their strategic success, and aligning HR practices with critical success factors of strategic jobs which undertake primary activities and tasks in such strategic business processes. In spite of using a small sample, the argument of this study was supported to some extent. As shown earlier, in the management consulting industry, legitimizing capability is one of the strategic capabilities to increase organizational performance, and it can be enhanced by (1) a set of HR practices targeted for human capital of senior management consultants as well as (2) a system of HR practices for human capital and social capital of the strategic jobs. The findings show how HRM can promote strategic success of organizations in the perspective of strategic management. Also, this study extends the effectiveness of strategic HRM to a relatively understudied context such as small organizations in the Asian professional service industry.

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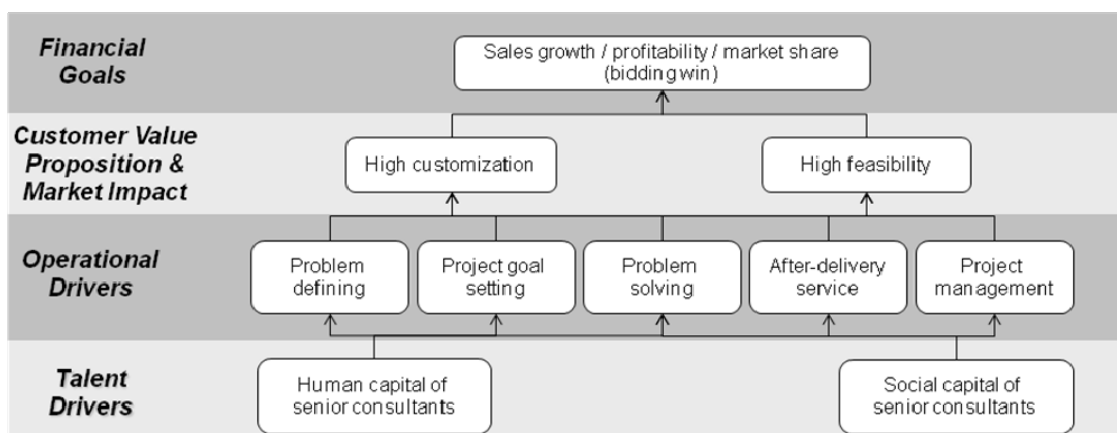
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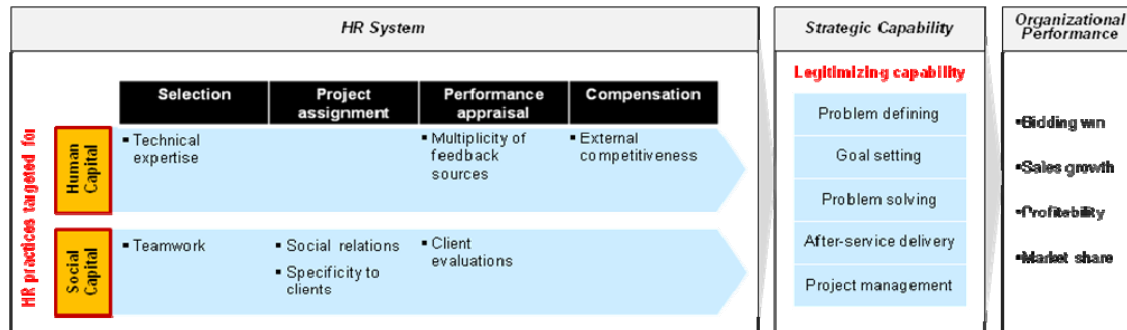
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**FIGURE 1****A Talent Map of the Management Consulting Industry**

**FIGURE 2**  
**A Theoretical Framework**



**TABLE 1**  
**Factor Structure of HR Practices**

Items	1	2	Alpha
<i><b>HR practices targeted for human capital</b></i>			<b>.60</b>
What portion of all new senior hires did your firm select based on technical expertise? (%)	.26	<b>.79</b>	
What portion of the senior consultants in your firm received formal feedback on job performance from internal multiple sources (e.g., superiors, colleagues, subordinates)? (%)	-.14	<b>.80</b>	
If the market rate for total compensation (wages+benefits) is considered to be the 50th percentile, what was your firm's target percentile for total compensation of a senior consultant compared to your competitors (If you usually paid the market rate, enter 50)? (%)	-.17	<b>.61</b>	
<i><b>HR practices targeted for social capital</b></i>			<b>.75</b>
What portion of all new senior hires did your firm select based on teamwork? (%)	<b>.76</b>	.28	
What portion of the consulting projects that your firm conducted reflected social relationships among potential senior team members in work assignment? (%)	<b>.79</b>	.05	
What portion of the consulting projects that your firm conducted catered senior consultants' specialties to clients' consulting needs in work assignment? (%)	<b>.75</b>	.00	
What portion of performance appraisal incorporated feedback on the senior consultants' job performances or attitudes provided by clients? (%)	<b>.66</b>	.09	
Eigenvalue	<b>2.32</b>	<b>1.72</b>	
% of Variance	<b>33.12</b>	<b>24.60</b>	

**TABLE 2**  
**Factor Structure of Legitimizing Capability**

<b>Items</b>	<b>Loading</b>	<b>Alpha</b>
Problem defining	<b>.88</b>	<b>.89</b>
Goal setting	<b>.83</b>	
Problem solving	<b>.86</b>	
After-delivery service	<b>.75</b>	
Project management	<b>.86</b>	
Eigenvalue	<b>3.51</b>	
% of Variance	<b>70.21</b>	

**TABLE 3**  
**Factor Structure of Organizational Performance**

<b>Items</b>	<b>Loading</b>	<b>Alpha</b>
Bidding win	<b>.88</b>	<b>.87</b>
Growth rate	<b>.83</b>	
Profitability	<b>.85</b>	
Market share	<b>.85</b>	
Eigenvalue	<b>2.89</b>	
% of Variance	<b>72.33</b>	



**TABLE 4**  
**Correlation and Descriptive Statistics<sup>a</sup>**

Variables	M	SD	1	2	3	4	5	6
1. Firm size <sup>b</sup>	2.90	.99						
2. Complexity <sup>c</sup>	26.48	19.24	.06					
3. HR practices targeted for human capital of Sr. consultants <sup>d</sup>	.00	.75	.33	.00				
4. HR practices targeted for social capital of Sr. consultants <sup>d</sup>	.00	.75	-.00	.06	.26			
5. HR system <sup>d</sup>	.00	.59	.21	.04	.79	.79		
6. Legitimizing capability	5.33	.90	.19	.01	.37	.28	.41	
7. Organizational performance	4.67	1.03	.22	.20	.40	.21	.39	.30

*Note.* Numbers 1-6 in the top row correspond to the variables in the respective sections of the table.

<sup>a</sup>  $N = 46$ . Correlations with absolute values greater than or equal to .26 are statistically significant at  $p < .1$ ; those greater than or equal to .30 are statistically significant at  $p < .05$ ; those greater than or equal to .39 are statistically significant at  $p < .01$ ; and those greater than or equal to .79 are statistically significant at  $p < .001$ .

<sup>b</sup> The logarithms for this variable are used in all subsequent analyses.

<sup>c</sup> The range for this variable is from 0 to 80 percent.

<sup>d</sup> The standardized scores for these variables are used in all subsequent analyses.

**TABLE 5**  
**Results of Regression Analyses**

Variables	Legitimizing Capability			Organizational Performance					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Firm size	.08	.19	.11	.09	.21	.14	.16	.08	.12
Complexity	.01	-.01	-.01	.19	.17	.18	.18	.19	.18
HR practices targeted for human capital of Sr. consultants	.35*			.37*				.31*	
HR practices targeted for social capital of Sr. consultants		.28†			.20				
A system of HR practices targeted for intellectual capital of Sr. consultants			.39**			.35*			.29†
Legitimizing capability							.27†	.17	.15
<i>F</i>	2.36†	1.84	3.11*	3.61*	2.00	3.53*	2.50†	3.03*	2.89*
<i>R</i> <sup>2</sup>	.14	.12	.18	.21	.13	.20	.15	.23	.22
$\Delta R^2$	.11	.08	.15	.12	.04	.12	.07	.02	.02
<i>F</i> for $\Delta R^2$	5.27*	3.76†	7.44**	6.40*	1.99	6.17*	3.34†	1.23	1.00

*N* = 46.

Standardized coefficients are reported.

†  $p < .10$ ; \*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$

**TABLE 6**  
**Results of Power Analyses for the Supported Regression Models**

	Model 1	Model 3	Model 4	Model 6	Model 7
$R^2$	.14	.18	.21	.20	.15
$N$	46	46	46	46	46
Medium Effect Size	.15	.15	.15	.15	.15
$\alpha = .05$	.54	.67	.77	.74	.57
$\alpha = .10$	.67	.79	.86	.84	.70

## **APPENDICES**

### **Appendix A: Survey questionnaires in English**

#### Firm Size

Please indicate the number of professional management, full-time senior and junior consultants in your firm as of each year's end during 2006-2008.

#### Complexity of the Consulting Projects

The questions below ask you on the level of difficulties of the projects your firm conducted over the last 3 years (2006-2008). Please indicate their portion in total sales after reading the following descriptions: The portion of the consulting projects in which the clients required your firm to pioneer the unfamiliar and new practices through your firm's expertise and creativity (cases in which few qualified consulting firms were available to fulfill the clients' needs in the Korean management consulting industry, thus high fees were accepted by the clients); the portion of consulting projects in which the clients required your firm to deliver the familiar yet highly customized practices based on your firm's relevant prior consulting experience; the portion of consulting projects in which the clients required you to deliver the well-known practices based on your programmed efficient procedures and methods (cases in which many qualified consulting firms were available to fulfill the clients' needs in the Korean management consulting industry, thus the clients had high fee sensitivity).

#### Legitimizing Capability

Please answer each of the questions on full-time senior consultants, as compared to the competitors in your primary service areas over the last three years (2006-2008). If the market average level of the senior consultants' competencies (i.e., the combination of

knowledge, skills, and abilities) for the following five activities is considered to be the 4 point, please estimate your senior consultants' competencies for those. (If you think your consultants' competencies are average, circle 4)

1. Problem defining (1 very low; 7 very high)
2. Project goal-setting (1 very low; 7 very high)
3. Problem solving (1 very low; 7 very high)
4. After delivery service (1 very low; 7 very high)
5. Project management (1 very low; 7 very high)

#### HR Practices and Policies

The following questions ask on the Human Resources practices and policies for full-time senior consultants over the last three years (2006-2008).

1. What portion of all new senior hires did your firm select based on technical expertise?  
(%)
2. What portion of the senior consultants in your firm received formal feedback on job performance from internal multiple sources (e.g., superiors, colleagues, subordinates)?  
(%)
3. If the market rate for total compensation (wages+benefits) is considered to be the 50th percentile, what was your firm's target percentile for total compensation of a senior consultant compared to your competitors (If you usually paid the market rate, enter 50)? (%)
4. What portion of all new senior hires did your firm select based on teamwork? (%)
5. What portion of the consulting projects that your firm conducted reflected social relationships among potential senior team members in work assignment? (%)

6. What portion of the consulting projects that your firm conducted catered senior consultants' specialties to clients' consulting needs in work assignment? (%)
7. What portion of performance appraisal incorporated feedback on the senior consultants' job performances or attitudes provided by clients? (%)

#### Organizational Performance

Compared to the competitors in your primary service areas over the last three years (2006-2008), how would you estimate your firm's performance in terms of:

1. Bidding win (1 much worse; 7 much better)
2. Growth in sales (1 much worse; 7 much better)
3. Profitability (1 much worse; 7 much better)
4. Market share (1 much worse; 7 much better)

#### The Number of Respondents

How many people participated in completing this survey? (#) If any, what are the job title(s) of other(s)?

## Appendix B: Survey questionnaires in Korean

### 회사 규모 (Firm Size)

지난 3 년간 ('06-'08) 각 연도별 경영진, 상근 시니어 및 주니어 컨설턴트들의 인원을 알려주시기 바랍니다.

### 컨설팅 프로젝트의 난이도 (Complexity of the Consulting Projects)

지난 3 년간 ('06-'08) 수행하셨던 프로젝트의 난이도에 관한 질문입니다. 아래의 설명을 읽으시고, 전체 매출액에서의 비중을 알려주십시오.

- 고객들이 귀사가 보유한 전문성과 창의성을 바탕으로 이제까지 알려지지 않은 새로운 프랙티스의 개척을 요구했던 프로젝트 (한국시장에 그러한 고객의 니즈를 충족시켜줄 만한 업체가 거의 없었기 때문에 고객들이 높은 비용을 감수했던 경우)
- 고객들이 귀사가 보유한 관련 컨설팅 경험을 바탕으로 친숙하지만 개별 고객에게 매우 맞춤형된 프랙티스의 도입을 요구했던 프로젝트
- 고객들이 귀사가 보유한 정형화된 효율적인 절차나 방법론을 바탕으로 이미 잘 알려진 프랙티스의 도입을 요구했던 프로젝트 (한국시장에서 그러한 고객의 니즈를 충족시켜줄 만한 업체가 많았기 때문에 고객들이 가격에 상당히 민감했던 경우)

### 정당화 역량(Legitimizing Capability)

지난 3 년간 ('06-'08) 귀사의 주요 서비스 분야에서 경쟁하셨던 기업들과의 상대적인 비교를 바탕으로 아래의 5 가지 활동들에 필요한 시장 평균적인 역량(지식, 기술, 능력의 조합) 수준이 4 점이라고 가정했을 때, 귀사의 시니어

컨설턴트들의 역량수준을 평가하여 주시기 바랍니다(시장평균수준일 경우, 4에 O 표시).

1. 문제정의 활동 역량 (1 매우 낮음, 7 매우 높음)
2. 프로젝트 목표설정 활동 역량 (1 매우 낮음, 7 매우 높음)
3. 문제해결 활동 역량 (1 매우 낮음, 7 매우 높음)
4. 프로젝트 사후관리 활동 역량 (1 매우 낮음, 7 매우 높음)
5. 프로젝트 관리 활동 역량 (1 매우 낮음, 7 매우 높음)

#### 인적자원관리 제도 및 정책 (HR Practices and Policies)

다음은 지난 3년간 ('06-'08) 귀사가 상근 시니어 컨설턴트들을 대상으로 운영했던 인적자원관리 제도와 정책들에 관한 질문입니다.

1. 지난 3년간 전체 시니어 컨설턴트 입사자 중 몇 %가 기술적 전문성 (예를 들면, 산업 및 경영에 대한 지식, 컨설팅 프랙티스 및 방법론에 대한 전문성 등) 을 심사하여 선발되었습니까? (%)
2. 지난 3년간 연평균 귀사의 시니어 컨설턴트들 중 몇 %가 조직내부의 다양한 원천들 (예를 들면, 상사, 동료, 부하) 로부터 직무성과에 대한 공식적인 피드백을 받았습니까? (%)
3. 임금과 복리후생을 합친 총 보상의 시장 평균 수준이 50%라고 가정했을 때, 지난 3년간 귀사의 시니어 컨설턴트 보상 목표 수준은 몇 % 였습니까? (시장 평균 수준이었을 경우, 50 을 입력)
4. 지난 3년간 전체 시니어 컨설턴트 입사자 중 몇 %가 팀웍을 심사하여 선발되었습니까? (%)



5. 지난 3 년간 귀사가 수행했던 전체 컨설팅 프로젝트 중 몇 %가 프로젝트 배정시  
팀원이 될 시니어 컨설턴트들간 인간관계를 고려하였습니까? (%)
6. 지난 3 년간 귀사가 수행했던 전체 컨설팅 프로젝트 중 몇 %가 프로젝트 배정시  
고객사의 현안과제와 시니어 컨설턴트의 전문성간의 적합성을  
고려하였습니까? (%)
7. 지난 3 년간 연평균 귀사 시니어 컨설턴트들의 성과평가 항목 중 몇 %가  
컨설턴트의 직무성과 및 태도 등에 관한 고객사로부터의 피드백을  
반영하였습니까? (%)

#### 조직 성과 (Organizational Performance)

지난 3 년간 ('06-'08) 귀사의 주요 서비스 영역에서 경쟁하셨던 기업들과  
비교하셨을 때 귀사의

1. 프로젝트 수주율은? (1 매우 낮았음, 7 매우 높았음)
2. 매출액 성장율은? (1 매우 낮았음, 7 매우 높았음)
3. 수익성은? (1 매우 낮았음, 7 매우 높았음)
4. 시장점유율은? (1 매우 낮았음, 7 매우 높았음)

#### 설문 응답자수 (The Number of Respondents)

귀하를 제외하고 몇 분께서 본 설문지 작성에 참여해주셨습니까?, 다른  
참여자분(들)의 직위명(들)은 무엇입니까?