# Examining Strategic Fit and Misfit in the Management of Knowledge Workers

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## ABSTRACT

This study advances research on strategic human resource management by examining the importance of alignment between an organization's HR system and innovation strategy in achieving superior performance. We argue that alternative innovation strategies require different forms of knowledge behaviors from core knowledge workers to deal with the unique knowledge problems underlying exploration versus exploitation innovation strategies. Further, we argue that companies make distinct choices in terms of their HR strategies for managing core knowledge workers, and these alternative HR systems theoretically produce different employee ability, motivation, and opportunity outcomes which support different knowledge search and combination behaviors. We demonstrate, in a field study of 230 software firms, that alternative HR systems support either an exploration or exploitation strategy, and the alignment or misalignment between a firm's HR system and strategy results in firm performance gains or penalties, respectively.

Knowledge exchange and combination are essential for innovation and firm survival in fast paced industries (Smith, Collins, & Clark, 2005), but not all formal arrangements for managing workers are equally effective in managing required knowledge outcomes (Nickerson & Zenger, 2004). Because alternative innovation strategies require the application of different knowledge (Benner & Tushman, 2002; March, 1991), the question of how firms can foster the required employee knowledge search and integration activities for a given innovation strategy is a critical area in need of further research (Gupta, et al., 2006). HR systems may be key to understanding this question as extant research suggests that firms can gain a competitive advantage when they achieve alignment between the behavioral requirements of their strategies and the role behaviors engendered by the human resource (HR) systems they use to manage core employees (Collins & Smith, 2006; Schuler & Jackson, 1987). We argue that firms that choose an HR system that fits with the knowledge requirements of their innovation strategy will achieve higher firm performance, while those that choose a poor fitting HR system will suffer performance penalties.

Theoretical work in the SHRM literature has argued for the importance of vertical fit, the notion that an HR system is more likely to positively contribute to firm performance when the system is aligned with an organization's business strategy (Delery, 1998; Becker & Huselid, 2006). Prior empirical studies, however, have found mixed support for this "fit hypothesis" (e.g., Delery, 1998). Further, the extant empirical research testing this fit hypothesis is lacking on a number of dimensions. First, prior studies have tended to focus on manufacturing or low-end service firms or on front-line employees (e.g., Arthur, 1994; Fu, Flood, Bosak, Rousseau, Morris, and O'Regan, 2015), ignoring knowledge workers and industries where innovation is at a premium. Second, prior work has tended to compare the effects of a high investment HR

system oriented toward employee development (e.g., the high commitment or high performance HR system) relative to a lower investment HR system that limits resource allocations directed toward attracting and developing employees (e.g., a transactional approach) (e.g., Arthur, 1994; Delery & Doty, 1996; Ichniowski et al., 1997; Tsui, Pearce, Porter, & Tripoli, 1997). Alternatively, extant empirical research has focused on the relative effects of a single strategic HR system in different strategic or industry contexts (e.g., Chadwick, Way, Kerr, & Thacker, 2013; Youndt, Snell, Dean, & Lepak, 1996). Unfortunately, while this body of research helps to establish boundary conditions associated with the appropriateness and effectiveness of a *particular* investment-oriented HR system,[1] these prior studies have ignored the idea that organizations have the strategic choice between multiple *different* investment-oriented HR systems, each comprised of HR practices that support the development of unique abilities, motivations, and opportunities (AMOs) of core knowledge workers (Kehoe & Collins, 2008). As a result, this research has offered no insight regarding the relative effectiveness of a high-commitment approach relative to other *strategic* HR systems.

We seek to contribute to the literature on SHRM in several important ways. First, we aim to contribute by explicitly adopting the idea of strategic choice in HR by comparing three alternative systems of HR practices and their effectiveness in satisfying the knowledge requirements of exploration and exploitation innovation strategies. Second, our approach sheds light on the "fit hypothesis" by assessing both a wider range of HR systems and examining the effects of both alignment and misalignment of these HR systems with the knowledge search and

[1] For example, such research has established that high investment HR practices may have diminishing positive effects on establishment performance as implementation levels increase (Chadwick, 2007), that the effect of High Performance HR practices on labor productivity may be more positive in firms that are not pursuing a differentiation strategy, when capital intensity is high, when industry dynamism is high, and when industry growth is high (Chadwick et al., 2013); and that a human capital enhancement HR system may be more positively related to performance under a quality manufacturing strategy (Youndt et al., 1996).

combination behaviors required for effective pursuit of alternative innovation strategies. Importantly, we articulate how the three HR systems build on alternative philosophical approaches for managing core knowledge workers in terms of attachment, selection, and coordination and control and how these choices should theoretically result in different arrays of employee AMOs to carry out the knowledge search and combination behaviors required for alternative innovation strategies. In the following sections, we develop theoretical arguments regarding the fit between alternative HR systems and innovation strategies. We start by outlining two alternative innovation strategies – exploration and exploitation – and exploring the unique knowledge search and combination requirements of each. We then present three alternative HR systems (Engineering, Bureaucratic, and Commitment HR systems) and detail how each may be aligned or misaligned to the unique knowledge requirements of exploration and exploitation. We test our model with data collected from core knowledge workers and managers from a sample of 230 software firms.

## THEORY AND HYPOTHESES

**Exploration and Exploitation**. Exploration and exploitation represent distinct strategic alternatives to innovation that enable firms to adapt to changing environments (Gupta et al., 2006), but which differ in the scope and nature of required learning activities and desired outcomes (Levinthal & March, 1993). Previous research has highlighted that the unique learning and knowledge requirements of these two strategies warrant distinct organizational investments, structures, and work environments (March, 1991). Building on this prior work, we articulate the unique characteristics of knowledge search and exchange behaviors required of core knowledge workers for successful exploration and exploitation.

Exploration has been broadly conceptualized as innovation with a goal of shifting or

expanding a firm's technological paradigm and often creating new products or entering new markets (Benner & Tushman, 2003; Levinthal & March, 1993). Exploratory learning is characterized by the search and combination of diverse and unique knowledge, risk-taking, experimentation, discovery, and frequent change (Katila & Ahuja, 2002; March, 1991). Exploration involves tasks that depart from the existing expertise of the focal organizational unit, requiring the organization to expand its base of knowledge and competence (Benner & Tushman, 2002; Taylor & Greve, 2006). Extending this logic, firms successfully pursuing exploration depend on core knowledge workers with the AMOs that enable them to search for, acquire, and integrate diverse, distal knowledge from unique sources (Beckman, 2006; Rodan & Galunic, 2004). Employees' knowledge search and combination behaviors must also involve challenging the status quo through experimentation with novel alternatives that may vary widely from the firm's current technological direction (Benner & Tushman, 2002).

In contrast, exploitation has been defined as innovation with the goal of improving or reinforcing a firm's current technological direction (Benner & Tushman, 2002) and is oriented toward the refinement and extension of existing products (He & Wong, 2004; Levinthal & March, 1993). In targeting innovation around existing technologies, firms pursuing exploitation require deep – rather than broad – search for knowledge and benefit from the recombination of local or similar – rather than novel – information (Baum *et al*., 2000; Taylor & Greve, 2006). Firms pursuing exploitation thus benefit from narrow, overlapping knowledge and localized search (either inside the organization or via other firms in the industry) for knowledge that can be readily connected to refine and extend existing products, technologies, and routines (Benner & Tushman, 2002; He & Wong, 2004). The knowledge search and combination behaviors which are likely to best support an exploitation strategy involve the application of knowledge

which is more similar and/or related to an organization's existing knowledge domain (Katila & Ahuja, 2002; Rodan & Galunic, 2004) and supports more incremental change consistent with a firm's current technological trajectory (Gupta *et al*., 2006; March, 1991).

**The Behavioral Perspective of SHRM and an Examination of Alternative HR Systems**

Early SHRM theory suggests that an organization can achieve competitive advantage when the firm's HR system aligns with the requirements of the organization's strategic goals (Dyer, 1985; Schuler & Jackson, 1987). Following the abilities-motivation-opportunities framework, employees' contributions to performance are a function of their combined AMOs to achieve desired outcomes (Appelbaum, Baily, Berg, & Kalleberg, 2000; Jiang, Lepak, Hu, & Baer; 2012). Integrating these insights at the organizational level, the behavioral perspective of SHRM suggests that an HR system can aid in the creation of competitive advantage for an organization to the extent that its HR practices elicit the specific role behaviors required by a firm's strategy (Schuler & Jackson, 1987; Jackson, Schuler, & Jiang, 2014).

A key implication of the behavioral perspective is that HR systems comprised of *different* HR practices are likely to foster different employees' AMOs to support *different* role behaviors required of alternative organizational strategies (Kehoe & Collins, 2008). Prior SHRM research, however, has adopted a narrow focus on a single (i.e., High Commitment) HR system, assessing its potential to support performance across a range of strategic and organizational contexts requiring a variety of employee role behaviors. We suggest this approach may be problematic, as it provides a limited perspective on what may constitute a "high investment" HR system, particularly as there may be a multitude of alternative HR systems that follow different philosophies for investing in employees and developing unique employee AMOs (Kehoe & Collins, 2008). Moreover, a focus on a single HR system prevents

scholars from determining the unique HRM investments that differentiate organizations and enable a competitive advantage in different strategic contexts (Becker & Huselid, 2006).

We seek to overcome this critical limitation of prior SHRM research with an examination of the fit of different HR systems with alternative innovation strategies as a function of the knowledge search and combination behaviors that each HR system is likely to support. This represents an important point of departure not only from the broader SHRM literature, but also from prior SHRM work specifically examining HRM and innovation, which has to date focused on the extent to which variations of the High Commitment HR system positively influence firms' innovation performance (e.g., Chen & Huang, 2009; Chuang, Jackson, & Jiang, 2016; Collins & Smith, 2006; Patel, Messersmith, & Lepak, 2013). This body of research has also failed to distinguish the differential behavioral and HRM requirements of alternative innovation strategies, leaving a gap in our understanding of different AMO requirements across alternative innovation strategies and consequently, the potential effectiveness of alternative HR systems in different contexts.

In reality, firms vary in their choice of HR systems (Ichniowski et al., 1997; Tsui et al., 1997). Even within knowledge-based firms that face high institutional pressures to develop similar HR systems, researchers have found considerable variability in HR approaches for managing core employees (Baron *et al*., 1999; Sherer, 1995). Prior research has demonstrated that different systems of HR practices can shape firms' performance outcomes not only with respect to performance levels but also by differentially influencing the specific behaviors and interactions underlying employees' completion of work (Ichniowski & Shaw, 2003); therefore, researchers can expand our understanding of how firms can systematically and effectively use human resource management to support different strategies by simultaneously examining

multiple systems that pursue unique avenues for investing in employee AMOs. We draw on the work of Baron and colleagues (Baron *et al*., 1996; Baron & Hannan, 2002) to identify three specific HR systems, each comprised of a set of HR practices characterizing a distinct underlying philosophy for managing knowledge workers: Engineering, Bureaucratic, and Commitment. Baron *et al*. (1996) found that the HR systems employed in the technology firms they studied varied on three key components: selection, attachment, and coordination and control. Firms adopt HR practices to support the underlying basis on which they would like each of these three components to be enacted. These three components are consistent with other researchers' descriptions of the elements underlying firms' approaches to managing and shaping the AMOs of a workforce through HR practices (Batt, 2002; Tsui *et al*., 1997).

The selection component captures whether an organization employs a "buy" or "build" approach with respect to employee capabilities, with firms varying in whether they hire employees based on their (1) skills and abilities to perform specific tasks right away, (2) broad capabilities to perform a range of tasks that will evolve over time, or (3) fit to the culture of the firm with a focus on developing employees as they stay with the firm (Baron *et al*., 1996). The attachment component reflects the basis on which a firm attracts, retains, and motivates employees. Baron *et al*. (1996) noted that knowledge-based firms differ in whether they build employees' attachment through the development of (1) a long-term relationship based on employee commitment to the organization itself, (2) a market-based relationship focused on providing interesting and challenging work, or (3) a market-based relationship emphasizing individual pay. Finally, coordination and control captures the mechanisms through which a firm manages employee performance and structures work to ensure that essential tasks are completed effectively. Baron *et al*. (1996) noted that two broad approaches to coordination in

knowledge-based firms were characterized by autonomy or tight control, and that each of these approaches could be employed through two alternative paths. Firms can motivate high employee task performance through autonomy and empowerment based on (1) organizational culture and pressure from peers, or (2) professional socialization tied to the academic and industry standards of professionally trained employees (Baron & Hannan, 2002). Firms pursuing a path of tight control and coordination can do so through (1) formal processes and systems, or (2) consistent, direct oversight by managers and supervisors (Baron *et al*., 1996).

While variation across the three components could lead to 36 unique HR systems, Baron and colleagues (Baron & Hannan, 2002; Baron *et al*., 1996) found that most firms clustered into a small number of patterns. Importantly for our study, three HR systems – Engineering, Bureaucratic, and Commitment – were by far the most consistently followed patterns for firms that had moved past the startup stage (Baron *et al*., 1999). While the work of Baron and colleagues was helpful in identifying the key components of HR systems and how the three systems differ from one another, previous research has not examined the impact of these systems on firm performance in the context of different innovation strategies. The three components (i.e., the bases for selection, attachment, and coordination and control) underlying each HR system and the specific AMOs – as well as the ultimate role behaviors that they elicit – are summarized in Tables 1 and 2.

Insert Tables 1 and 2 here

As we articulate below, the Engineering, Commitment, and Bureaucratic HR systems explored represent three distinct philosophies regarding HRM investments that are likely to foster different knowledge worker AMOs based on the unique HR practices within each system. We emphasize that these three HR systems represent not variations in organizations' levels of

investment – but rather variations in the types of investments organizations make in managing the employment relationship and are likely to be more or less effective for supporting the knowledge search and combination requirements of alternative innovation strategies. Thus, in building and testing our theoretical model, we not only build on SHRM research examining HRM and innovation specifically, we also make a significant contribution to the broader SHRM literature by looking beyond the High Commitment HR system to assess the effectiveness of alternative HR systems that may be more likely to contribute to competitive advantage in different strategic contexts.

**Engineering HR system**. The Engineering HR system has been identified as the default approach in the high technology sector with a focus on attracting diverse, external talent with a broad range of specialized knowledge, and fostering an environment in which employees test and challenge one another's ideas (Baron & Hannan, 2002). The philosophical approach to HR practices underlying the Engineering HR system is (1) selection based on a "buy" approach to hiring for diverse skills and knowledge rather than building them internally; (2) attracting and motivating employees by providing interesting and challenging work, as well as personal development opportunities; and (3) an autonomous approach to coordination and control relying on professional standards and socialization. Specifically, firms employing the Engineering HR system tend to foster a market-based employment relationship with employees. These firms implement a "buy" approach to recruitment and selection with a focus on acquiring external talent with a broad array expertise and diverse experience at all levels of the organization (Kehoe & Collins, 2008). Additionally, the Engineering HR system elicits employee motivation and attachment by providing ample opportunities to pursue interesting and challenging work and by motivating employees to stay current with new advances in knowledge

and technologies in the firm's external environment. The Engineering HR system relies on professional control to guide individual performance and discretion (Baron *et al*., 1996).

We argue that the combination of HR practices in the Engineering HR system promote unique knowledge worker AMOs that support knowledge search and combination behaviors that are aligned with the exploration strategy and misaligned with the exploitation strategy. First, employee selection and attraction practices in the Engineering HR system are likely to support behaviors that lead to the continuous infusion of new and unique knowledge to the firm. For example, a focus on external selection of top candidates with broad skills helps to increase the likelihood of these firms attracting diverse talent with specialized and often unique knowledge from top universities and organizations outside of the industry (Kehoe & Collins, 2008). A market-based approach to selection and attraction ensures the perpetuation of inflows of new and unique knowledge through the hiring process at all levels of the organization (Song et al., 2003). This particular market-based approach also creates opportunities for incumbent knowledge workers to access new unique and diverse knowledge by drawing on their broad and diverse networks outside the organization and its immediate industry (Smith et al., 2005).

Second, the HR practices within the Engineering system are also likely to motivate knowledge workers to enact the requisite knowledge search and combination behaviors for exploration. For example, firms following the Engineering HR system provide general directions and end goals, but leave immediate decisions and paths to solve challenges up to the discretion of employees. In such an environment that encourages self-guided and creative search for knowledge and ideas, rather than following standard routines and protocols, knowledge workers will be more likely to conduct novel searches for relevant knowledge within and outside the firm (Amabile, 1996). Further, coordination and control based on

professionalism and empowerment decreases status hierarchies and creates a climate in which employees believe no one person's knowledge is more relevant to every problem or goal, likely increasing employees' willingness to challenge the status quo (Weick & Westley, 1996). Knowledge workers under this HR system will, therefore, be more likely to challenge previous assumptions, offer new ideas, and follow novel search directions to solve problems. The Engineering HR system's focus on adhering to professional standards and selection of skilled, specialized talent is likely to increase feelings of trust among employees within the firm, increasing the motivation to share unique knowledge with one another (Collins & Smith, 2006).

Overall, the Engineering HR system fosters many of the knowledge search and combination behaviors required for an exploration strategy. Through its combination of HR practices, the Engineering system supports knowledge workers' AMOs to conduct a broad search for diverse and unique knowledge that can be absorbed and combined to drive new technological directions. Further, the practices in this system help to increase access to additional unique knowledge from outside the firm through diverse knowledge networks in the professional community. The practices within the Engineering HR system foster a climate in which core knowledge workers are more likely to experiment, connect knowledge in new ways, and challenge the status quo – all essential knowledge search and combination behaviors for success in exploration.

In contrast, many of the knowledge behaviors elicited by the Engineering HR system are likely to be inefficient – and potentially counterproductive – in supporting firms pursuing an exploitation strategy. For example, attracting a broad range of specialized knowledge to the organization is costly both in terms of the immediate labor cost associated with the talent and the longer-term costs of socialization and retention. Firms seeking to merely extend existing

technological directions through exploitation are unlikely to recover these costs or generate returns through this selection approach, as there is little need for unique and non-overlapping knowledge in the exploitation context (Smith et al., 2005). In addition, the Engineering HR system is likely to cause significant waste in employees' time and efforts as employees under this system use their individual discretion to follow new search strategies, pursue new paths, and question current directions and the status quo – activities which are likely to detract from the goals of refining existing processes and making predictable, incremental advances along current paths (Nickerson & Zenger, 2004).

*Hypothesis 1: The Engineering HR system will be positively related to firm performance for firms pursuing an exploration strategy and negatively related to firm performance for firms pursuing an exploitation strategy.*

**Bureaucratic HR system**. The philosophical approach underlying the Bureaucratic HR system emphasizes the employment of a workforce with a narrow range of skills and experience equipped to fill specific task requirements governed by formal rules and performance management (Baron & Hannan, 2002). Specifically, selection decisions support a "buy" approach to hiring external applicants, with a tightly defined range of abilities to immediately perform in specified roles (Baron *et al*., 1996). Firms following the Bureaucratic HR system seek to attract and motivate employees by providing competitive compensation relative to industry rivals and by closely tying pay to individual performance. Formal coordination and control is achieved through tight controls by management in the form of rigorous documentation, reporting structures, and regularly scheduled performance evaluations conducted by management (Baron & Hannan, 2002). The HR practices in the Bureaucratic HR system foster a formal, structured work environment which rewards employees' mastery of institutionalized routines and employment of relevant knowledge within the boundaries of well-

defined job roles and expectations.

We argue that the Bureaucratic HR system promotes unique knowledge worker AMOs that support knowledge search and combination behaviors that are aligned with the exploitation strategy and misaligned with the exploration strategy. First, the practices in this HR system work together to support the exchange of knowledge stocks that are local and/or related to the organization's existing knowledge base in the pursuit of incremental change. By hiring for immediate fit to organizational tasks and focusing on employees with relevant industry experience, firms employing the Bureaucratic HR system are likely to assemble a workforce with strong external network ties to other firms or relevant actors (e.g., customers, suppliers) within their industry (Hitt et al., 2001). These external ties create the opportunities for knowledge workers to gain access to new knowledge on process and technological improvements at competitor and peer organizations that, based on industry-specific standards, are likely be closely related to the firm's existing technological direction (Song et al., 2003).

Formal structural control tied to managerial direction and feedback in the Bureaucratic HR system increases the importance of managers for identifying exchange opportunities in this context and leads to knowledge search and combination that is oriented toward solving moderately complex problems (Nickerson & Zenger, 2004) like the improvement and modification of current technology. Further, organizations employing the Bureaucratic HR system encourage employees to complete their work within boundaries defined by formal organizational rules and under the close guidance and support of a designated superior. Because of this direct supervision and oversight, employees are likely to be motivated toward the accomplishment of supervisor-espoused goals (i.e., as opposed to disparate goals identified and embraced by individual employees), which is likely to reinforce the standardization of

routines and formalization of roles in which existing organizational knowledge becomes embedded (Benner & Tushman, 2002).

Overall, these arguments suggest that the Bureaucratic HR system is positively aligned with the requirements of an exploitation strategy. The attraction and selection practices within the Bureaucratic HR system create a core of knowledge workers with stocks of knowledge that are highly overlapping in terms of education, training and work experience. Further, the external focus on talent acquisition constrained to tightly defined capabilities supports knowledge flows that help the organization gain access to new knowledge that is highly related to existing knowledge within the organization. These practices contribute to knowledge workers' advanced knowledge of industry standards, familiarity with the industry's products, and an understanding of common industry routines. Knowledge that is deep and narrow facilitates employees' abilities to integrate knowledge which is likely to be closely related to the current technological directions of the firm and promote incremental improvements and innovations in existing product lines (He & Wong, 2004). Finally, practices in this system motivate employees to engage in knowledge search behaviors that follow current routines, ensuring that employees are contributing their knowledge to the improvement of current technological pursuits rather than focusing on new paradigms (Burns & Stalker, 1994).

In contrast, the HR practices within the Bureaucratic HR system are likely to lead to knowledge search and combination behaviors that are misaligned with the knowledge requirements of the exploration strategy. For example, a focus on hiring talent from the external market with tightly overlapping knowledge and experience reduces the introduction of the broad and unique knowledge required to create novel combinations of knowledge for exploratory innovation. In addition, the direct linkage of pay to individual performance

decreases trust and decreases employees' motivation to share unique knowledge with one another (Collins & Smith, 2006). Control through tight process and managerial oversight is less useful for solving complex problems because this formal hierarchy reduces horizontal communication and exchange that facilitate the use of diverse perspectives and approaches to solving complex problems (Nickerson & Zenger, 2004). Finally, tight controls and processes also reduce the likelihood of pushing against the status quo or challenging industry standards as employees are likely to receive negative feedback for breaking standard procedures or protocols under a Bureaucratic approach.

*Hypothesis 2: The Bureaucratic HR system will be positively related to firm performance for firms pursuing an exploitation strategy and negatively related to firm performance for firms pursuing an exploration strategy.*

**Commitment HR system**. The philosophical approach underlying the Commitment HR system is to create a work environment characterized by employee loyalty, close-knit internal ties, and a long-term employment relationship with the organization. In prior studies of high technology firms, authors have articulated that the Commitment HR system is composed of three distinct groups of HR practices that focus on (1) selection based on a "build" approach of hiring individuals who fit the organization's culture and who can grow with the firm over time; (2) attraction and motivation based on building a strong internal community and family-like environment; and (3) autonomous coordination and control through peer feedback and strong cultural norms and individual employee discretion (Baron, *et al*., 1996; Collins & Smith, 2006). Specifically, the Commitment HR system includes external selection practices oriented to assess fit to organizational values and culture and a focus on the internal labor market for promotions (Collins & Smith, 2006). This system emphasizes peer and cultural control, relying on cultural norms to provide guidance for individuals who have high discretion in completing tasks (Baron

*et al*., 1996). Finally, the Commitment HR system creates greater attachment and embeddedness through a family-like environment, internal growth opportunities, and pay and rewards tied to organizational performance (Collins & Smith, 2006).

We argue that the Commitment HR system promotes unique knowledge worker AMOs that support knowledge search and combination behaviors that are required for effective exploitation but detrimental for exploration. First, the HR practices within the Commitment HR system are likely to create a context that encourages employees to build high levels of firm-specific and overlapping knowledge. Specifically, the Commitment HR system focuses on fostering a long-standing employee-employer relationship, resulting in greater commitment and much lower turnover than alternative HR systems. This increased commitment and incentives to maintain the employer-employee relationship increases employees' willingness to develop firm-specific knowledge (Tsui et al., 1997). Low turnover rates over a sustained period are likely to result in overlapping knowledge stocks and beliefs about work processes among long-tenured workers (Schneider, Goldstein, & Smith, 1995). Finally, internal labor markets and job rotations in this system reinforce a narrow range of overlapping knowledge among core knowledge workers as they build new knowledge by training under more experienced employees and through experiences working on the organization's existing products.

The attachment and control components of the Commitment HR system further shape the knowledge search, exchange, and combination behaviors of core knowledge workers. For example, the high levels of organizational commitment resulting from this system of practices increases employees' willingness to invest effort to support the strategic direction of the organization (Tsui *et al*., 1997). Because employees are hired based on their fit to the firm's culture and values, they are more likely to direct this effort toward incremental change rather

than toward significant transformation that could change the firm and their employment relationship (Schneider et al, 1997). The Commitment HR system's reliance on fostering a family-like environment and peer feedback to maintain coordination and control are likely to further increase employees' motivation to follow existing rules and norms. In particular, strong ties which develop among actors in close proximity can lead to emotional convergence (Anderson, Keltner, & John, 2003) and a climate of continuing the status quo as individuals hesitate to challenge one another for fear of jeopardizing their relationships (Granovetter, 1973).

Based on the above, we argue that the Commitment HR system is aligned to promote the knowledge search and combination behaviors that are required to successfully support the exploitation strategy. First, employees' overlapping and deep firm-specific knowledge are likely to aid in creating knowledge recombination opportunities for incremental improvement of existing products (He & Wong, 2004). Extensive organizational experience is also likely to foster knowledge workers' understanding of existing routines, best practices, and technological knowledge that already exists in the organization (Kehoe & Collins, 2008), increasing the efficiency of incremental improvements required for exploitation. The investment in internal development and an internal labor market are likely to increase knowledge search based on existing internal knowledge, as this HR system increases employees' reliance on internal network ties when they seek to understand a problem, seek new knowledge, or gain new perspectives (Collins & Smith, 2006). Because of the overlapping nature of this knowledge, employees are likely to be able to absorb the knowledge and information shared with other internal employees easily and the resulting recombination of knowledge is likely to lead to incremental changes in the technological direction of the organization (Baum et al., 2000).

In contrast, the role behaviors supported by the Commitment HR system are likely to be counterproductive in supporting an exploration strategy. First, low turnover and a focus on employees' internal networks are likely to result in reduced flows of new and diverse knowledge into the organization, reducing the likelihood that core knowledge workers will have access to broad, diverse knowledge in their search activities. Further, because core knowledge workers will be more motivated to develop higher levels of firm-specific knowledge, they may find it challenging to absorb and integrate different and unique external knowledge even if it were to be brought into the organization (Cohen & Levinthal, 1990). Strong cultural norms and attachment to the organization are likely to decrease the likelihood of employees challenging the status quo as they will be unwilling to disrupt their status in the organization or risk backlash from other employees (Barker, 1993); thus, it is unlikely that employees under this system will challenge the current technological direction of the organization.

*H3: The Commitment HR system will be positively related to firm performance for firms pursuing an exploitation strategy and negatively related to firm performance for firms pursuing an exploration strategy.*

## METHODS

### Overview of the Research Process

We collected data from knowledge-based organizations within a single industry – software – in order to reduce error variance based on systematic differences across industries. We chose the software industry because firms in this context are likely to use a variety of approaches for managing core employees (Baron *et al*., 1996), and managing these knowledge workers effectively can have a significant impact on firm performance (Collins & Smith, 2006). To test our hypotheses, we measured four broad sets of variables: HR practices, innovation strategy, firm performance, and controls. To limit problems associated with common method

variance, we collected measures of our variables from three data sources. First, we used surveys from a sample of core knowledge workers to assess HR practices. Second, we used interviews with CEOs to collect background data for control variables and to assess innovation strategy. Finally, we used publicly available corporate financial performance records for the one-year period following our collection of data on HR practices and innovation strategy.

**Sample and Research Procedures**

We collected data from 230 software firms in four high-technology regions (Austin, Boston, Seattle, and Northern Virginia). We limited our focus to firms with public financial information who employed at least 100 employees in order to target firms which were likely to have formally established HR systems. Of 439 firms which met our sample criteria, 251 agreed to participate. From these, we obtained usable data from 230 organizations, representing a 52.4% response rate. Organizations that participated did not differ from non-participating firms in reported sales ($t_{439}$ = .89, ns), profit growth ($t_{439}$ = 1.41, ns), return on equity ($t_{439}$ = 1.26, ns), or number of employees ($t_{439}$ = 1.04, ns). The mean firm size was 260.45 employees, with a standard deviation of 109.07 and range of 152 to 689 employees.

Our communication with each sample firm began with a brief phone interview with the CEO to provide details on the study's purpose and procedures, collect background information on the organization, and build the CEO's commitment to participating in the study. We asked the CEO to provide us with the email addresses of 20 core knowledge workers, defined as employees "who are critical for creating software and product innovations within your organization." We then sent each of the identified employees an initial request and one reminder with a link to a secure website with a request to complete a survey. To increase participation within firms, we asked the CEO of each participating firm to send the identified employees an

email encouraging their participation. We provided CEOs with information on the total number – but not the names – of employees who responded. An average of 12.3 core knowledge workers completed surveys at each organization with a range of 6 to 18 respondents and an overall internal participation rate of 64%. Respondents held the following job titles: 37% were software engineers, 31% were software developers, 29% were software programmers, and 3% were new product project managers, suggesting that our respondents held jobs directly related to knowledge creation.

**Variables**

**Firm Performance.** We employed two separate measures of financial performance, and obtained financial performance measures through publicly available sources. First, because the goal of most publicly traded firms is year-over-year profit growth, we measured one-year profit growth as the net profit for the firm one year after we collected the survey data (t + 1) minus net profit for the year concurrent with the survey data collection (t) then divided this total by net profit for the year concurrent with the survey data collection (t). Second, in order to evaluate firms' abilities to provide value to their shareholders through effective innovation, we measured return on equity (ROE) – defined as net income divided by shareholder equity – for the one-year fiscal period following the collection of our survey data. To make the results easier to read in our tables and easier to interpret, we transformed each performance measures into percentages by multiplying each by 100.

**HR Practices**. We used previous research on high technology firms and developed or adapted 23 items to assess HR practices reflecting the three components (i.e., attachment, selection, and coordination & control) underlying the differences between Engineering, Bureaucratic, and Commitment HR Systems (Baron *et al*., 1999; Collins & Smith, 2006).

Employees were asked the extent to which they agreed that statements matched the HR practices of their organization on a five point scale ranging from 1 = totally disagree to 5 = totally agree (see Table 2 for all items). For attachment, items focused on (1) challenging work, (2) growth opportunities and social and monetary connections to the organization, or (3) high pay and pay tied to individual performance. For the selection component, items focused on attracting employees based on (1) fit to the culture and values versus immediate fit to the job and task requirements and (2) focus on external versus internal labor markets. For coordination and control, items focused on (1) professional standards and personal discretion, (2) feedback from peers, or (3) tight monitoring and control by direct supervisors.

To provide evidence of discriminant validity of our three systems, we performed a principal components analysis with a varimax rotation to examine the factor structure of the 23 items representing HR practices. In our preliminary analysis, two of the items failed to cleanly load on any of the three factors that emerge and were dropped from further analyses. In a second principal components analysis on the remaining 21 items yielded three components with eigenvalues greater than 1 (see Table 3 for details). Items in each of the three factors closely mapped to our description of the HR practices tied to each of the three systems, providing evidence of the discriminant validity of three separate HR systems[2]. While a few HR practices demonstrated modest factor loadings across the three systems, this is not cause for concern for two reasons. First, all primary factor loadings were at the .50 level or greater. Second, HR

[2] CFA analysis provided similar evidence of the validity for three separate HR systems. Specifically, we found that a three factor model (items consistent with our principal components analysis) showed good fit to the data: $\chi^2$ = 826.2 (df = 189, $p < .01$), RMSEA = .07, CFI = .85 IFI = 86. Further, a three factor model showed significantly better fit to the data than did a one factor model (all HR items loading on a single higher order factor): $\chi^2$ = 2224.6 (df = 189, $p < .01$), RMSEA = .18, CFI = .39, IFI = .38. The three factor model showed slightly better fit than a three factor model in which the three factors were allowed to correlate with one another: $\chi^2$ = 917.4 (df = 186, $p < .01$), RMSEA = .07, CFI = .82, IFI = .84. The standardized factor loadings in the CFA model with the 3 uncorrelated HR system factors were similar in nature to what we found in the pattern matrix after rotation with the principal components analysis.

system measures can be better understood as additive indices than as scales reflecting underlying constructs (e.g., Batt & Colvin, 2011; Chadwick et al., 2013). While a factor analysis is useful in demonstrating the tendency for practices in a system to be used together and for establishing discriminant validity of the three systems, we would not necessarily expect item factor loadings to reach conventional levels. Items for each of the three scales showed good reliability: Engineering HR system $\alpha = 0.76$, Bureaucratic HR system $\alpha = 0.78$, Commitment HR system $\alpha = 0.71$. Following standard practice in the SHRM literature (e.g., Batt, 2002; Collins & Smith 2006; Delery, 1998), we created HR system measures by averaging the HR practice items for each of the separate HR systems.

Insert Table 3 here

**Innovation Strategy.** As noted in the theory section, we argue that firms may pursue different innovation strategies and tend to focus primarily on exploration or exploitation (Baum *et al*., 2002; March, 1991). We captured each firm's innovation strategy by asking the CEO to identify whether the firm more closely followed a strategy of exploration (defined as focusing on trying to create new products) or exploitation (defined as focusing on incrementally improving current products) (He & Wong, 2004). In order to create meaningful interaction terms in our moderated regression analyses, we coded firms who self-identified as explorers as 1 and those who self-identified as exploiters as 2. To provide some evidence of validity for this approach, we also asked the CEO to provide an assessment of the percentage of total revenue sourced in prior years from (1) existing products (2) a new version of an existing product, and (3) brand new products. We then created a ratio of innovativeness by dividing the percentage of revenue listed in category 3 by 100. We found a correlation of 0.65 with our coded firm-

strategy variable based on a sub-sample of 197 companies in which the CEO was willing to provide this additional information. Thus, it appears that those firms that self-identified as explorers tended to obtain a larger percentage of their revenue from new products in prior years.

**Control Variables.** We sought to account for differences in challenges or advantages firms may experience in managing their workforce, responding to changes in the environment, successfully leveraging employee knowledge and capabilities, and more broadly, driving profits and creating returns for shareholders by controlling for organizational size (measured as total number of employees), prior firm performance (using total sales the year of the survey data collection) and age (measured as the total number of years the organization had been operating as an independent company). We divided firm size by 100 to ease the interpretation of relevant findings, and we multiplied sales growth by 100 to create a percentage. Further, prior research has suggested the software/technology firms may seek to co-locate geographically to share resources, build local labor markets, or collaborate. To control for potential differences in resources, HR practices, labor markets, or performance based on co-location, we added three dummy controls for the regions of the organizations that participated (comparing firms based in Austin, Boston, and Seattle to those in Northern Virginia).

## RESULTS

We provide descriptive statistics and correlations for key variables in Table 4. As can be seen in this table, the three HR systems are all significantly and negatively correlated with one another, providing evidence that firms choose to implement one of the three HR systems to manage their core knowledge workers. We tested our model using ordinary least squares regression analysis by entering the variables in three steps: the control variables, the independent and moderator variables, and the interaction terms. In Table 5, Models 1 through 3

display the results for regression analyses predicting profit growth, and Models 4 through 6 display the results for of regression analyses predicting ROE. As shown in Models 2 and 5 of Table 5, the main effects of all three HR systems were non-significant in predicting firm performance which is consistent with our expectation that the effectiveness of any HR system in driving performance depends on its alignment with an organization's strategy.

Insert Table 4 and 5 here

In Hypothesis 1, we predicted that the Engineering HR system would be positively related to firm performance in firms pursuing an exploration strategy and negatively related to performance in firms pursuing an exploitation strategy. In Model 3 in Table 5, the Engineering HR System*Strategy interaction term is significantly related to profit growth ($\beta = -6.83$, $p < 0.01$). A simple slopes analysis reveals that the underlying relationship is consistent with our prediction. Specifically, the Engineering HR system is positively related to profit growth in firms pursuing an exploration strategy ($\beta = 2.94$, $p < 0.05$) and negatively related to profit growth in firms pursuing an exploitation strategy ($\beta = -4.10$, $p < 0.01$). A plot of this interaction appears in Figure 1. Model 6 in Table 5 reflects that the Engineering HR System*Strategy interaction term is also significant in predicting ROE ($\beta = -5.07$, $p < .01$). A simple slopes analysis suggests that the positive relationship between the Engineering HR system and ROE is marginally significant in the context of an exploration strategy ($\beta = 2.37$, $p < .10$), while the Engineering system is significantly negatively related to ROE in the context of an exploitation strategy ($\beta = -2.82$, $p < 0.05$). These findings provide support for Hypothesis 1.

In Hypothesis 2, we predicted that the Bureaucratic HR system would be positively related to profit growth and ROE in the context of an exploitation strategy and negatively related to profit growth and ROE in the context of an exploration strategy. In Model 3 in Table

5, the Bureaucratic HR System*Strategy interaction term is significantly related to profit growth ($\beta = 10.41$, $p < 0.01$). A simple slopes analysis reveals that the underlying relationship is consistent with our prediction. Specifically, the Bureaucratic HR system is positively related to profit growth in firms pursuing an exploitation strategy ($\beta = 4.62$, $p < 0.01$) and negatively related to profit growth in firms pursuing an exploration strategy ($\beta = -5.55$, $p < 0.01$). A plot of this interaction appears in Figure 2. Model 6 in Table 5 shows that the Bureaucratic HR System*Strategy interaction term is also significant in predicting ROE ($\beta = 8.29$, $p < .01$), with a simple slopes analysis confirming that the underlying relationship conforms to our predictions. The Bureaucratic HR system has a positive effect on ROE in firms pursuing an exploitation strategy ($\beta = 4.84$, $p < 0.01$) and a negative effect on ROE in firms pursuing an exploration strategy ($\beta = -4.52$, $p < 0.01$); thus, we found strong support for Hypothesis 2.

Insert Figure 1 and 2 here

In Hypothesis 3, we predicted that the Commitment HR system would be positively related to firm performance in firms pursuing an exploitation strategy and negatively related to performance in firms pursuing an exploration strategy. As shown in Models 3 and 6 in Table 5, the Commitment HR system*Strategy interaction term was not significantly related to profit growth ($\beta = 2.97$, *n.s.*) or ROE ($\beta = 2.60$, *n.s.*), respectively. In combination with the lack of significant main effect of the Commitment HR system on profit growth and ROE, these results suggest that, relative to the Engineering HR system and Bureaucratic HR system, the Commitment HR system is not well aligned with the strategic requirement of either an exploration or an exploitation strategy. These results provide no support for Hypothesis 3.

We conducted several additional sets of analyses to examine the robustness of our initial findings (full results of the additional analyses are available upon request). First, we examined the robustness of our findings when using an alternative measure of innovation – in which we captured a firm's relative pursuit of exploration (i.e., as opposed to exploitation) as the CEO-reported percentage of revenue from brand new products in prior years. Results of regression analyses wherein we interacted our measures of the three HR systems and this alternative innovation strategy measure produced results that were similar to our reported findings in terms of direction, effect size, and significance for each of the three interactions. Second, to further examine the idea that firms tend to choose one of the three HR systems to manage their core knowledge workers, we conducted a cluster analysis on the HR practice items and found that the companies in the sample clustered on one of three clusters. The HR practices for each cluster matched our theorized HR systems and the practice groupings that were identified when we performed the principal components analysis. Further, regression results in which we interacted innovation strategy with dummy variables representing these HR clusters (i.e., the Engineering cluster compared to the Commitment and Bureaucratic clusters, the Bureaucratic cluster compared to the Engineering and Commitment Clusters) produced similar results to our original regression analyses. That is, the Engineering cluster (compared to the other two HR system clusters) was positively and significantly related to firm performance under exploration and negatively and significantly related to performance under exploitation. In contrast, the Bureaucratic cluster (compared to the other two HR system clusters) was positively and significantly related to firm performance under exploitation and negatively and significantly related to performance under exploration. Thus, both additional sets of analyses provide evidence of the robustness of our initial findings.

## DISCUSSION

Overall, we believe our paper makes substantive contributions to the SHRM literature. First, we have brought forward the idea of strategic choice in managing core knowledge workers and examined the use and relative effectiveness of three alternative strategic HR systems. Despite repeated calls for researchers to examine alternative systems for managing talent (e.g., Becker & Huselid, 2006; Kehoe & Collins, 2008), most prior research in this vein has focused on a single, best practice approach to HRM. At best, prior research seeking to address the "fit hypothesis" has compared the effectiveness of a strategic HR approach against a non-strategic approach that simply eliminates investment in employees (e.g., Arthur, 1994; Delery & Doty, 1996). Based on the earlier work of Baron and colleagues (Baron *et al*, 1996; Baron & Hannan, 2002), we identified three HR systems that align with alternative philosophies for how firms seek to attract, coordinate and control, and select core knowledge workers. Importantly, results from a principal components analysis suggested that organizational respondents see these as separate approaches for how their firm manages core knowledge workers. Our measures of alternative HR systems were significantly negatively correlated with one another, suggesting that firms primarily choose to manage core knowledge workers with one strategic HR approach. By examining the relative effectiveness of these three alternative approaches simultaneously, our work helps to advance SHRM research by providing evidence that firms do seem to make choices between strategic approaches to managing core knowledge workers – suggesting that the assessment of multiple HR systems in different strategic and industry contexts represents an important need in future SHRM scholarship.

We also add to the literature on SHRM by theorizing about and finding support for the idea that firms' choice in HR systems is important for understanding competitive advantage and

performance under alternative strategies. Our work sheds light on the role of fit between HR systems and organizational strategy in predicting firm competitive advantage. SHRM scholars have argued that HR systems lead to higher firm performance when they elicit the employee outcomes that are required to effectively execute a firm's strategy; however, extant empirical research has provided little in the way of evidence to support this hypothesis, with most research finding that a "best practice" HR system works better than a non-strategic set of low investment practices across generic business strategies. In contrast, we theoretically argued that choice in HR systems matter for shaping knowledge behaviors required of specific innovation strategies. We found that the Engineering HR system was the best fitting system for firms pursuing exploration as it was the only system to positively interact with exploration to predict performance. We also found that the Bureaucratic HR system was the best fitting system for firms pursuing an exploitation strategy as it was the only system to positively interact with exploitation in predicting performance.

Further, much of the earlier work on fit in SHRM has focused solely on the positive fit between HR systems and strategy and has largely ignored the consequences of negative fit or misalignment. In contrast, we also theoretically proposed and empirically found support for the notion that misalignment of HR systems with the behavioral needs of an innovation strategy can lead to performance penalties. As hypothesized, we found that the high use of the Engineering system of HR was negatively related to performance for firms pursuing exploitation and high use of the Bureaucratic HR system was negatively related to performance for firms pursuing exploration. The combination of theorizing and empirical results suggest that careful choice of HR systems is also important because misalignment seems to result in performance penalties.

Interestingly, in our regression analyses, we did not find significant interactions between innovation strategy and the Commitment HR system in predicting performance, nor did we find a significant main effect in the relationship between the Commitment HR system and firm performance. These results are particularly surprising given the many studies that have found a positive and significant relationship between a Commitment HR system and firm performance across a wide range of industries. It is possible that the other HR systems that we examined are simply better strategic fits in the context of exploration and exploitation. That is, while the Commitment HR system was not negatively related to performance under either innovation strategy, the Engineering and Bureaucratic HR systems are better fits for exploration and exploitation respectively, and firms pursuing these HR strategies under the right innovation strategy are the ones likely to achieve competitive advantage. Perhaps the high degree of volatility and rapidly changing competitive landscape of the software industry may not be a fit for commitment-orientated practices that focus on internal labor markets and building a long-tenured employee base. For example, it is possible that the practices within this system limit the flow of new knowledge and willingness to challenge the status quo in a way that makes it difficult for these companies to keep pace with competitors in an effective way.

As with all research, our study should be considered in light of several limitations. First, we examined these relationships over a relatively short period of time in smaller firms that were likely only pursuing a single innovation strategy. Thus, our research is not able to address questions of alignment between HR systems and innovation strategy for firms who are either changing their innovation strategy or larger, multi-divisional firms seeking to achieve ambidexterity through the simultaneous pursuit of exploration and exploitation. Prior research suggests that it is difficult for firms to quickly change HR systems and control structures (Baron

et al., 1999; Nickerson & Silverman, 2003), increasing the potential for misalignment for firms or industries where there are frequent or rapid changes in strategic directions. Further, there is some extant research to suggest that firms may employ multiple HR systems simultaneously across different employee groups (e.g., Lepak & Snell, 1999). Future research may seek to determine whether firms can successfully support multiple innovations strategies in different parts of the organization through both structural and HR system choices (e.g., splitting the organization into multiple units to pursue different innovation strategies and aligning HR systems to drive the required knowledge behaviors within each unit).

Second, unmeasured exogenous variables may affect the relationships we studied. For example, other organizational characteristics (e.g., attributes of firms' founders or current leadership) may explain differences in firms' choice of innovation strategy and HR system. We did control for a number of firm characteristics that could potentially affect choice of strategic direction and HR philosophy and systems (e.g., prior financial performance, firm size, firm age), thereby reducing some of these concerns. Alternatively, we may be violating assumptions underlying ordinary least squares regression analysis (e.g., normality of errors) if a leader has chosen an HR system based on an earlier selection of an innovation strategy. Our correlation analysis suggested that there is no significant correlation between innovation strategy and HR system, suggesting that firms in our sample are likely choosing these strategies independently, providing some mitigation of this concern. However, future research would benefit from the inclusion of additional firm characteristics in comparisons of the effectiveness of different HR systems or could benefit from following an instrumental variable approach to reduce concerns regarding endogeneity between innovation and HR strategies. Similarly, future research could continue to further explicate the relationships between HR systems, innovation strategies and

firm performance by measuring and evaluating the impact of the employee ability, motivation, and opportunity outcomes and resulting knowledge behaviors that we identified in this study.

Despite these limitations, our study's contributions are bolstered by several key strengths. First, we collected data on HR systems, innovation strategy, and firm performance from independent sources, including knowledge workers, CEOs, and corporate records. This research design buffered our results against common method bias, lending additional credence to our findings. Second, our use of lagged performance data reinforces the causal direction specified in our model. Finally, in the context of extant SHRM scholarship which primarily focuses on the effects of the High Commitment HR system, our assessment of alternative HR systems provides guidance for future SHRM research as the field forges beyond the traditional best practice approach.

In conclusion, our study pushes theorizing and thinking in the literatures on the knowledge-based view and SHRM to better understand how firms may foster the knowledge search and combination behaviors required of alternative innovation strategies. Our findings suggest that multiple HR systems exist across knowledge-based firms within the same industry and that the alignment or misalignment of these systems with the knowledge requirements of exploration and exploitation strategies can lead to performance gains or penalties. In lighte of these findings, leaders of software and other knowledge-based firms that depends on innovation should carefully choose an HR system that elicits the knowledge behaviors that fit the requirements of their innovation strategy. While leaders of knowledge-based firms likely spend a great deal of time thinking about external market opportunities and developing an innovation strategy that they feel best takes advantage of these opportunities, many of these leaders may not spend as much time thinking about crafting an HR system that effectively shapes the

capabilities and behaviors of their workforce. Indeed, as firms grow larger, CEOs tend to pass this responsibility on to Human Resources executives, potentially increasing the chance that the organization will implement an HR strategy that fails to elicit the knowledge search and combination behaviors that are best aligned with the requirements of the business (i.e., innovation) strategy. As such, our study sheds light on the choices that HR executives or CEOs may consider in determining how to best align the characteristics of their workforce to the strategic innovation goals of the organization.

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Table 1
Comparison of three components underlying the Engineering, Bureaucratic, and Commitment HR systems

| HR System | Attachment | Selection | Coordination and Control |
|---|---|---|---|
| **Engineering HR system** | Interesting, challenging work | "Buy" approach; selection for broad capabilities to perform a range of tasks that will evolve over time | Professional socialization |
| **Bureaucratic HR system** | Competitive individual pay | "Buy" approach; selection for abilities to perform specific tasks right away | Formal processes and systems |
| **Commitment HR system** | Commitment to the organization | "Build" approach; selection for fit to organization's culture | Organizational culture and pressure from peers |

Table 2
HR systems, role behaviors, and abilities, motivation, and opportunities

| HR System | Ability | Motivation | Opportunity | Role behavior supported |
|---|---|---|---|---|
| **Engineering HR system** | Diverse, specialized knowledge | Motivation to navigate diverse viewpoints to achieve novel solutions | Ongoing access to diverse, distal knowledge in firm's external environment | Novel integration and recombination of diverse, distal knowledge |
| **Bureaucratic HR system** | Deep, narrow knowledge of industry standards and routines | Motivation to contribute to goals espoused by supervisor | Access to local knowledge related to current industry standards and routines | Integration and application of local, related knowledge in pursuit of incremental change |
| **Commitment HR system** | Deep familiarity with organizational knowledge | Commitment to achieving current goals of organization | Opportunities for reinforcement of shared or related knowledge and commitment to status quo through close contact with colleagues | Integration and application of local, related knowledge in pursuit of incremental change |

Table 3: Exploratory Factor Analysis for HR Practices

| HR Practices | Engineering HR System | Commitment HR System | Bureaucratic HR System |
|---|---|---|---|
| **Selection** | | | |
| We focus on external hiring for employees based on the fit of their skills to the requirements of specific jobs. | 0.438 | 0.347 | **0.637** |
| We tend to hire people who can contribute immediately in their job without extensive training. | 0.441 | 0.297 | **0.597** |
| We select individuals based on their overall fit with the company's values. | 0.382 | **0.704** | 0.344 |
| When interviewing for new employees, the company focuses on how well the individual fits our culture | 0.357 | **0.698** | 0.378 |
| In this company, we focus on hiring from within as the primary way to fill higher level jobs. | 0.298 | **0.741** | 0.435 |
| This company uses elite sources (e.g., top universities, head hunters) to find the best available talent in the country. | **0.631** | 0.381 | 0.344 |
| Higher level positions are filled primarily through a broad external search for the best and brightest employees. | **0.587** | 0.297 | 0.386 |
| **Attachment** | | | |
| We attract and retain employees primarily by paying higher wages than our competitors. | 0.348 | 0.297 | **0.597** |
| We primarily rely on pay raises and individual bonuses to motivate employees. | 0.423 | 0.311 | **0.565** |
| We motivate employees by creating a strong social environment at work. | 0.404 | **0.631** | 0.288 |
| We motivate employees through company performance-based bonuses (e.g., profit sharing or gain sharing). | 0.397 | **0.578** | 0.304 |
| We motivate employees by providing interesting and challenging work. | **0.687** | 0.321 | 0.299 |
| We retain employees by challenging them to stay on the cutting edge of technology. | **0.669** | 0.314 | 0.298 |
| We provide opportunities for employees to grow and learn in their jobs. | **0.561** | 0.487 | 0.118 |
| **Coordination and Control** | | | |
| We ask managers to closely monitor the day-to-day activities of their employees. | -0.114 | 0.297 | **0.588** |
| Managers follow a regular schedule in completing performance evaluations on employees. | 0.346 | 0.208 | **0.556** |
| This company has formal job duties and descriptions so that employees know their roles and responsibilities. | 0.241 | 0.311 | **0.602** |
| Employees in this company are expected to track one another's work, effort, and compliance with the company culture | 0.408 | **0.523** | 0.211 |
| We expect employees to provide informal feedback to one another in an effort to improve performance. | 0.423 | **0.597** | 0.148 |
| We believe that employees are experts who will get the job done right the first time without direct oversight. | **0.622** | 0.404 | 0.206 |
| Employees in this company are given the opportunity to complete their work however they see fit. | **0.623** | 0.451 | -0.118 |
| Eigenvalue | 3.72 | 3.08 | 4.28 |

**Table 4**
**Descriptive Statistics and Bivariate Correlation Matrix[a]**

| | Mean | Std. Dev. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Firm Size divided by 100 | 2.60 | 1.09 | | | | | | | | | |
| 2. Firm Age | 12.12 | 5.05 | 0.13* | | | | | | | | |
| 3. Sales | 10.09 | 6.39 | 0.02 | 0.06 | | | | | | | |
| 4. Engineering HR System | 3.27 | 0.60 | -0.07 | 0.14* | 0.05 | | | | | | |
| 5. Commitment HR System | 3.32 | 0.60 | 0.05 | -0.14* | 0.06 | -0.32** | | | | | |
| 6. Bureaucratic HR System | 3.24 | 0.51 | 0.04 | -0.12 | -0.16* | -0.22** | -0.43** | | | | |
| 7. Exploitation dummy[3] | 1.51 | 0.50 | -0.04 | -0.03 | -0.15* | -0.09 | 0.02 | 0.13 | | | |
| 8. Profit | 13.62 | 8.07 | -0.03 | -0.03 | 0.29** | 0.03 | -0.03 | -0.04 | -0.08 | | |
| 9. ROE | 14.32 | 7.81 | -0.05 | -0.02 | 0.24** | 0.02 | -0.02 | -0.02 | -0.02 | 0.64** | |

[a] *n = 230.*
*$p < 0.05$
**$p < 0.01$

[3] Takes value of 2 for firms pursuing exploitation and 1 for firms pursuing exploration

**Table 5: Results of Regression Analyses Predicting Profit Growth and ROE[a]**

| | Profit Growth | | | | | | ROE | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Model 1** | | **Model 2** | | **Model 3** | | **Model 4** | | **Model 5** | | **Model 6** | |
| | *B* | *SE* | *B* | *SE* | *B* | *SE* | *B* | *SE* | *B* | *SE* | *B* | *SE* |
| Constant | 11.50** | 1.91 | 16.58 | 9.24 | 26.44* | 10.85 | 12.50** | 1.81 | 12.96** | 1.96 | 24.17* | 11.07 |
| Firm Size | -0.58 | 0.10 | -0.56 | 0.49 | -.059 | 0.44 | -0.38 | 0.47 | -0.37 | 0.48 | -0.41 | 0.45 |
| Firm Age | -0.01 | 0.10 | -0.08 | 0.11 | -0.05 | 0.10 | -0.05 | 0.10 | -0.05 | 0.11 | -0.03 | 0.10 |
| Sales | 0.37** | 0.08 | 0.36** | 0.08 | 0.15 | 0.08 | 0.30*** | 0.08 | 0.31*** | 0.08 | 0.13 | 0.08 |
| Location 1 | 0.96 | 1.33 | 1.04 | 1.35 | 1.17 | 1.22 | 0.40 | 1.31 | 0.47 | 1.33 | 0.65 | 1.26 |
| Location 2 | 0.20 | 1.37 | 0.43 | 1.40 | 0.15 | 1.27 | 0.51 | 1.35 | 0.58 | 1.39 | 0.36 | 1.30 |
| Location 3 | 1.96 | 1.51 | 2.08 | 1.53 | 1.94 | 1.39 | 0.81 | 1.49 | 0.91 | 1.51 | 0.82 | 1.42 |
| Engineering HR | | | -0.17 | 1.00 | 9.67** | 2.83 | | | 0.09 | 0.99 | 7.40* | 2.89 |
| Commitment HR | | | -0.94 | 1.10 | -3.89 | 2.99 | | | -0.41 | 1.09 | -3.97 | 3.05 |
| Bureaucratic HR | | | -0.30 | 1.27 | -15.92** | 3.70 | | | 0.14 | 1.26 | -14.04** | 3.77 |
| Exploitation dummy | | | -0.60 | 1.05 | -21.06 | 16.40 | | | 0.20 | 1.04 | -24.13 | 16.73 |
| Engineering HR * Exploitation dummy | | | | | -6.83** | 1.87 | | | | | -5.07** | 1.91 |
| Commitment HR * Exploitation dummy | | | | | 2.61 | 2.03 | | | | | 2.60 | 2.03 |
| Bureaucratic HR* Exploitation dummy | | | | | 10.41** | 2.37 | | | | | 8.29** | 2.67 |
| $\Delta R^2$ | 0.09 | | 0.01 | | .17 | | 0.06 | | 0.00 | | 0.13 | |
| *F change* | 4.08** | | 0.30 | | 16.92** | | 2.54* | | 0.94 | | 11.55** | |
| Total $R^2$ | 0.09 | | .10 | | .27 | | 0.06 | | 0.06 | | 0.20 | |

[a] *n = 230*. Unstandardized regression coefficients are shown. *$p < 0.05$, **$p < 0.01$

Figure 1. The Interactive Effect of Strategy and the Engineering HR System on Profit Growth.

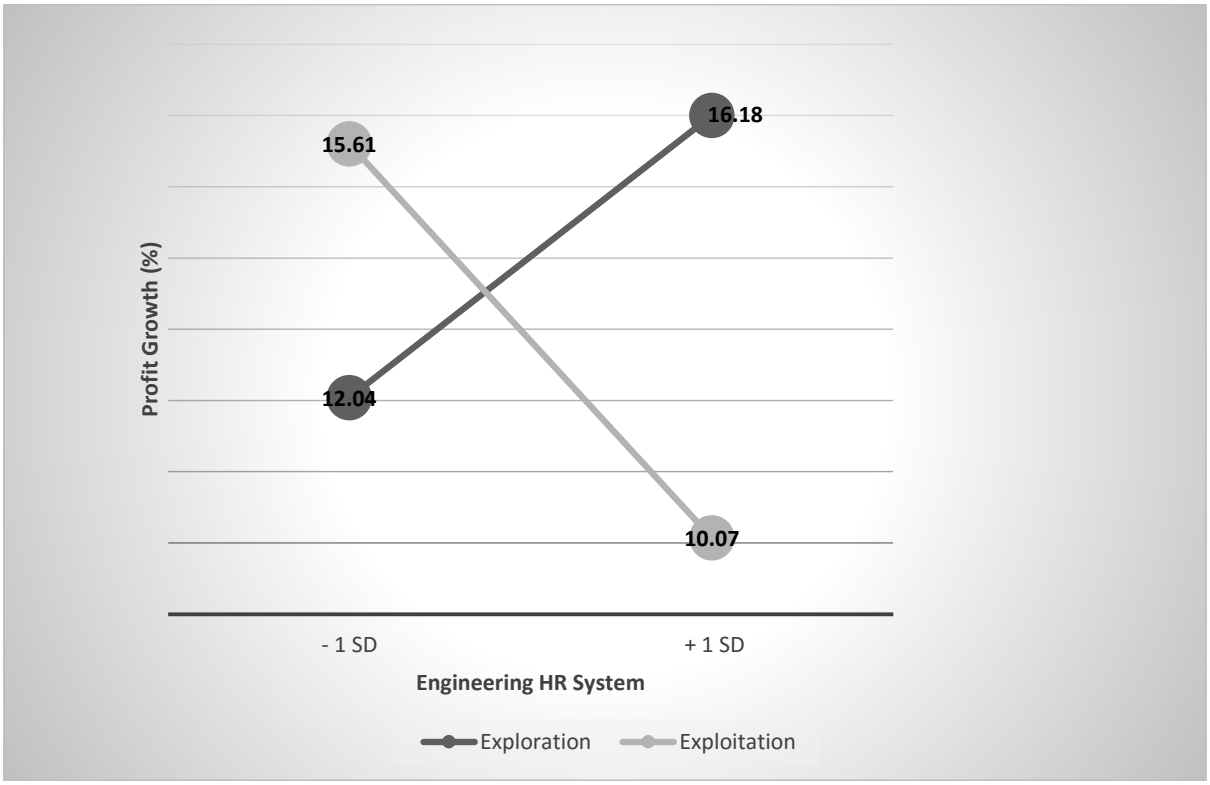


Figure 2. The Interactive Effect of Strategy and the Bureaucratic HR System on Profit Growth.