

# DOES NATIONAL CULTURE MATTER? THE INFLUENCE OF HUMAN RESOURCE MANAGEMENT PRACTICES ON BUSINESS STRATEGY AND FIRM PERFORMANCE

Kengatharan, N

Department of Human Resource Management University of Jaffna

Email: kenga@univ.jfn.ac.lk

Received: 14 April 2020 Revised and Accepted: 8 August 2020

**ABSTRACT:** By synthesising knowledge-based theory of the firm, organizational alignment theory and contingency theory, the present study aims at establishing the nexus among HRM practices, business strategy, culture and firm performance. Data were garnered with the aid of a self-reported questionnaire from 147 firms' managers working in Sri Lanka. Having confirmed the reliability and validity of the scales, the hypotheses were tested using the most powerful PLS-SEM approach. The results reveal that HRM practices were accounted for significant variance in innovation, quality enhancement and cost reduction. The study further confirms the moderating effects of power distance and uncertainty avoidance on the relationship between HRM practices and innovation and quality enhancement. Notably, the study discloses that HRM practices influence firm performance via business strategy. The present study has made overarching contributions to the frontiers of organisation literature and provided several fruitful practical implications for managers, administrators and practitioners.

**KEYWORDS:** Business strategy, Cost reduction, Firm performance, HRM practices, Innovation, Quality enhancement

**JEL Classifications:** D23, M12, M14, M19

## I. INTRODUCTION

The knowledge-based theory of the firm maintains that knowledge-based resource, people with their collective knowledge, skills, ability and experience, is an overarching factor contributing to sustainable competitive advantage (e.g. Zhang et al. 2018; Grant 1996). Therefore, how people are managed through human resource management (HRM) practices is of overriding importance (see Ali et al. 2018; Chow and Liu 2009; Beugelsdijk 2008) and correspondingly research studies in the sphere of HRM practices and allied concepts have sprouted across many disciplines (e.g. Cooke 2018; Budhwar et al. 2016; Singh 2004) and now at the top of the pecking order of strategic HRM studies (Ali et al. 2018). Albeit a plethora of studies in HRM practices has focused on developed countries, studies in many parts of the Asia-Pacific region are still in its infancy necessitating a need of scholarship looking at HRM practices with the cultural variation (see Budhwar et al. 2016).

Albeit a piecemeal approach to the role of HRM practices contributing to business strategy has been endured (see Do et al. 2018; Cooke and Saini 2010; Chow and Liu 2009; Schuler and Jackson 1987), those studies have overlooked how HRM practices augmenting tripartite components of business strategy, viz. innovation, quality enhancement and cost reduction (e.g. Do et al. 2018; Singh 2004). Remarkably, Cooke (2018) warns that HRM research in the Asian context continues to be greatly influenced by Western developed concepts and theories, but HRM context is significantly different from the West (Cooke and Saini 2010).

Systematic studies hitherto are sparse and considered as a point of departure and ipso facto, the present study fills the hiatus by answering an intriguing question that how HRM practices contribute to three types of business strategy.

Seminal studies highlight that a poor fit between HRM practices and culture would weaken the effectiveness of an organisation and its strategy (see Gerhart and Fang 2005). The study of Meyer and Xin (2018) features the substantial tensions of misfit between HRM practices and culture within organizations. Culture refers to a system of shared meaning that governs collective perceptions, thoughts, and actions (Schneider 1989).