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HR INVOLVEMENT IN CORPORATE GOVERNANCE

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This study examined the relationship between the involvement of the human resource management function in formulating corporate governance mechanisms and the quality of their implementation. It also looked at the relationship between the quality of implementation of corporate governance mechanisms and performance. Of interest were two governance mechanisms: strategic plan elements and behavioral control practices. This study was based agency theory, institutional theory, and the resource-based view of the firm. The results revealed that quality of implementation resulted in higher performance. Specifically, quality of implementation of strategic plan elements not only explained performance but also served as an important enabler of quality of implementation of behavioral control policies. The importance of HR involvement, however, was realized in its impact on quality of implementation.

I. INTRODUCTION

The importance of HRM in gaining competitive advantage has been long recognized (Tichy, Fombrum, and Devana, 1982; Schuler and Jackson, 1987). Such importance is enhanced to the extent that HR practices are successful in developing organizational capabilities that enable an organization to adapt to a changing environment (Youndt, Snell, Dean, and Lepak, 1996). These practices provide the infrastructure necessary for the organization to create value (Becker, Huselid, Pickus, and Spratt, 1997). Some authors argue that the HR function must be involved not only in strategy implementation but also, more importantly, in strategy formulation (Tichy and Devana, 1982; Schuler, 1990).

However, it appears that focusing HR's involvement in strategy formulation and its implementation is not enough for the organization to create value and sustain its competitive advantage. Apparently, it cannot be assumed unequivocally that managers possess the vision and managerial skills to lead the organization even as they discharge their duties with discipline and without external control, still taking into consideration the concerns of the different stakeholders (Collis and Montgomery, 1998). There is, thus, a need to take a step backward and look at corporate governance. Failure of governance takes on many forms. Some are too blatant to be unnoticed, such as polluting air and water, engaging in unfair labor practices, and dealing in illegal activities. However, some come in subtle forms such as top management failing to respond to global competitive challenges, engaging in the wrong businesses or strategies, and engaging in self-serving actions to the detriment of the organization's stakeholders (Collis and Montgomery, 1998). It has also been realized that human issues almost always lie beneath business issues, including governance issues, and thus, must be managed (Christensen, 1997; Pyne and McDonald, 2001). Failure in corporate governance, for instance, may be a symptom of a human system that is unable to define governance objectives and plans in achieving them, to implement actions or to measure their success (Christensen, 1997).

This paper examines the Philippine experience in how the HR function contributes to corporate governance. While several studies on the relationship between HR practices and organizational performance have been done (Arthur, 1994; Huselid, 1995; Martell and Carroll, 1995a; Delaney and Huselid, 1996;Youndt, Snell, Dean, and Lepak, 1996;

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Supangco, 2003, 2001a), there is a dearth of empirical studies on the relationship between HR practices and corporate governance. Moreover, several studies on the involvement of the HR function in corporate strategy formulation have been done (Golden and Ramanujam, 1985; Martell and Carroll, 1995a; Bennett, Ketchen, and Schultz, 1998; Buyens and De Vos, 2001; Supangco, 2001b) but involvement of HR in corporate governance is a neglected area of research. This study fills this gap by looking at specific HR policies and practices that are meant to support corporate governance. Of interest are two governance mechanisms: strategic planning elements (mission statement, business strategy, HRM strategy, corporate values statement, and strategic planning process) and behavioral control practices (performance management, performance measurements, code of ethics/discipline for employees, and structured process of compliance with rules and regulations).

Specifically, this study examines the relationship between the involvement of the human resource management function in formulating corporate governance mechanisms and the quality of their implementation, as well as the relationship between the former and performance. It also looks at the relationship between the quality of implementation of corporate governance mechanisms and performance. This study is based on agency theory, institutional theory, and the resource-based view of the firm.

II. HYPOTHESES DEVELOPMENT

Governance is concerned with the direction and control of the corporation. Tricker (1994) argues for the need to distinguish governance from management. Seen from the perspective of a modern corporation, with diffused ownership and where a board of directors represents owners, the board governs the company while managers run the company's business. The board delegates responsibility to the managers and the managers are accountable to the board (Tricker, 1994). Governance for whom? Inasmuch as the board represents the shareholders or the owners of the corporation, the board is expected to govern the organization in the best interest of the shareholders. However, when an organization is seen as comprising of different stakeholders (Freeman, 1984), it is now argued that the organization should be governed in the best interest of the different stakeholders. Stakeholders are those that experience or anticipate to experience actual or potential harm or benefit from the action or inaction of the corporation (Donaldson and Preston, 1995). The governance task now includes the act of balancing the needs, goals, and interests of the different stakeholders. Thus, the OECD expanded the definition of corporate governance to mean a set of relationships between different corporate actors: management, board, shareholders, and stakeholders. The latter includes employees, creditors, and suppliers (OECD, 1999). Still, the issue remains about the assumptions made on the attitudes and behaviour of the manager. Stewardship theory argues that managers are stewards and act in the principals' best interest (Donaldson and Davis, 1991). It assumes pro-organizational and collectivistic behaviour of the manager (Davis, Schoorman, and Donaldson, 1997). Such an assumption implies a governance structure that facilitates and empowers the manager as a steward. On the other hand, agency theory assumes self-interested behaviour, bounded rationality, and risk aversion on the part of the manager (Eisenhardt, 1989). Two problems can occur in agency relationship: agency problem resulting from divergence of goals of the principal and agent and the difficulty or cost implications of monitoring agent behaviour; and risk sharing problem arising from diverging risk preferences. The implication of this theory is to engage in incentives that align agent and principal interests and in monitoring activities of the agent. This paper derives some hypotheses based on the agency theory.

The concern for corporate governance has become critical with the threat of agency problems, which arise when managers are not the owners of the corporation. Agency problems occur because the manager has more information than the owners or shareholders about his characteristics and the decisions and actions he pursues, that it becomes convenient for him to act in his own interests at the expense of the shareholders (Fama and Jensen, 1983). Fama and Jensen (1983) suggested that control (ratifying and monitoring) of decisions be separated from its management (initiation and implementation) to mitigate agency problem. This is reflected in the structure of modern corporations where the board of directors, which represents the shareholders, provides checks and balances on corporate executives. On the other hand, judicious use of incentives, including consideration of risk, may enhance the alignment of interests (Beatty and Zajac, 1994; Zajac and Westphal, 1994). Clearly, monitoring and incentives involve human concerns. However, the essence of sound governance is that employees emulate the actions of the corporate governors and, hence, develop a culture cognizant of the requirements and consequences of sound corporate governance.

Economics perspective looks at governance effort as it ultimately increases the value of the firm. It is expected that organizations are responsible for the actions of their employees. Direction and control thus require that structures and policies are in place to govern behaviour of employees. One way to achieve this is to ensure that their HR systems are aligned with internal corporate governance as well as external regulatory objectives (Pyne and McDonald, 2001). Corporate strategy, including its various elements such as mission and corporate values statements, provides framework for employee actions. It enhances organizational performance to the extent that it reduces the uncertainty and ambiguity that are part of strategic decisions (Wilkins and Ouchi, 1983). Moreover, explicit policies and practices aimed at aligning behavior of employees in the best interest of the organization and its stakeholder support corporate governance objectives.

Moreover, the resource-based view of the firm advances that firm resources – physical, human, and organizational capital – that are unique and difficult to imitate can be sources of competitive advantage (Barney, 1991). Organizations gain competitive advantage when they develop strategies and practices idiosyncratic to the organization and where competitors are unable to reap the benefits even as they replicate such strategies and practices. However, to gain sustained advantage, the organization's resource must be such that it is of value and without substitutes, rare, and imperfectly imitable (Barney, 1991). The quality of implementation of policies and practices supporting corporate governance can be a complex process. It becomes embedded in the organization's social structure, which facilitates the development of policies and practices idiosyncratic to the firm making it a source of competitive advantage.

In summary, governance mechanisms include goals and strategies that provide framework for employee action, and behavioral control practices that provide the necessary tools to monitor and control behaviour. From both the agency theory and the resource-based theory of the firm, it is hypothesized that:

Hypothesis 1a: The quality of implementation of elements of corporate strategy is positively related to performance.

Hypothesis 1b: The quality of implementation of behavioral control mechanisms is positively related to performance.

At this point, it is interesting to determine the role of HR involvement in the formulation of policies and practices in support of governance. Using the resource-based perspective, Lado and Wilson (1994) argued that HR practices may be a source of competitive advantage. When such practices are aligned with strategies, they become idiosyncratic to the organization (Becker and Gerhart, 1996). The idea may be applied to practices supporting corporate governance. The resource-based view is consistent with contingency theory implying that strategies are not universal; rather, they are contingent on the organization's employees who implement them (Wright and McMahan, 1992). HR's involvement in strategy formulation enhances the alignment of HR practices with the organization's strategy; this argument may be extended to the organization's corporate governance objectives (Buyens and De Vos, 2001). In providing the environment within which the implementation of HR strategies becomes effective, Lengnick-Hall and Lengnick-Hall (1988) explained that the integration of HR with strategic choices is important because when resources including HR are examined in goal setting and implementation, a broader range of solutions to complex problems becomes more likely. Thus from a resource-based perspective, it is hypothesized that:

Hypothesis 2a: HR involvement in the formulation of elements of corporate strategy is positively related to performance.

Hypothesis 2b: HR involvement in the formulation of behavioral control mechanisms is positively related to performance.

By extension when HR is involved in crafting policies and practices that enhance alignment of individual interests with corporate interests, implementation of such will also be enhanced to the extent that such involvement provides the means where information necessary for implementation are exchanged and utilized (Amit and Schoemaker, 1993). Involvement of the HR function in strategy formulation and specifically in crafting strategies aimed at supporting corporate governance is a complex process and becomes embedded in an organization's social structure. Such processes facilitate the development of strategies idiosyncratic to the firm. Thus from the resource-based perspective, it is hypothesized that:

Hypothesis 3a: HR involvement in the formulation of elements of corporate strategy is positively related to the quality of implementation.

Hypothesis 3b: HR involvement in the formulation of behavioral control mechanisms is positively related to the quality of its implementation.

Thus far, this paper has invoked economics-based theories in explaining HR involvement in corporate governance. The next set of hypotheses explores the role of institutional variables in the relationship between HR and corporate governance.

Institutional theory argues that an organization operates in a network of social relationships. It is thus important that for an organization to gain legitimacy, it is accepted by actors in its network (DiMaggio and Powell, 1983). The significance placed on legitimacy lies in its potential to increase an organization's chances for survival. Because organizations operate in social networks, there is a tendency towards isomorphism – organizations resembling each other. Such increases legitimacy (Deephouse, 1996; Di Maggio and Powell, 1983). There are different ways in which institutional pressures present themselves – coercive, mimetic, and normative forces (Di Maggio and Powell, 1983). Government regulations or cultural expectations constitute coercive forces. Compliance to government rules or conformity to cultural norms impacts on organizations such that they become isomorphic to one another. On the other hand, mimetic pressures are introduced by uncertainty. Under conditions of extreme uncertainty organizations mimic the practices of organizations that are successful in their network. Moreover, normative pressures evolve from the diffusion of practices coming from professional networks. Professionalism, and training received from universities also introduce normative pressures (Di Maggio and Powell, 1983).

There is a growing recognition of the role of institutions in human resource practices. It was noted that some HR practices are adopted not necessarily for reasons of efficiency or impact on the bottom line (Martell and Carroll, 1995b). The weak to moderate support for the positive relationship between HR involvement in strategy formulation and various measures of performance (Martell and Carroll, 1995b; Bennett et al., 1998; Wright, McMahan, McCormick, and Sherman, 1998) seems to reinforce the idea that practices are continued to be adopted regardless of their impact on performance. Indeed, Huselid, Jackson, and Schuler (1997) found indications of institutionalization of HR practices through the moderate correlation between perceived strategic and technical HRM effectiveness, and concluded that technical HRM activities have become ineffective in gaining competitive advantage.

This paper looks particularly at the coercive pressures. Publicly-listed corporations are strictly monitored to comply with rules established by the government. Moreover, because ownership of these organizations is open to anyone willing and able to buy their stocks, they invite attention from media, analysts, government, and other actors in the network. This increases their need to engage in actions considered legitimate (Oliver, 1991). A similar argument may be extended to multinational corporations. Because of their global presence, they attract attention from media, government, and other actors. In addition, MNCs wanting to gain legitimacy in the local market experience the pressure to engage in actions considered legitimate. Thus, due to pressures from rules or cultural expectations:

Hypothesis 4a: Quality of implementation of strategic plan elements is higher in listed corporations.

Hypothesis 4b: Quality of implementation of strategic plan elements is higher in MNCs.

Hypothesis 4c: Quality of implementation of behavioral control practices is higher in listed corporations.

Hypothesis 4d: Quality of implementation of behavioral control practices is higher in MNCs.

III. METHODS

Data Collection

Data used in this study came from a convenience sample of 36 organizations in Metro Manila, Philippines, the same data set used in an exploratory study on the role of HR in corporate governance and risk management (Mendoza, Supangco, and Tolosa, 2005). Convenience sampling was utilized because of budgetary constraints. The nature of data collection limits the generalizability of the results of this study to the organizations that participated in the survey.

The questionnaire was e-mailed to members of the Personnel Management Association of the Philippines and other human resource managers in August and September 2003. Some 39 questionnaires were received but three questionnaires were deemed inappropriate to the study as these did not come from corporations.

Measurements

Dependent Variables

Two dependent variables were used in this study: performance and quality of implementation. Performance was measured by six Likert-type items, which measure perceived performance in the following areas: sales growth rate, market share, operating profits, and development of new product/service, human resource, and market (those interested in the questionnaire used in this study may contact the author). The concepts were derived from several sources; thus, the need to determine their dimensions empirically (Snell, 1992). To empirically determine the dimensions of the concepts used in this study, factor analysis was used. Note that factor analyses were performed only to empirically validate dimensions of the concepts adopted in this study. Once the items that fall into each dimension were identified, the average scores of these items were computed so that the dimensions will have scales parallel to the original scales. Details of the variables used in the study are found in the Appendix.

Factor analysis was performed on these items and they loaded to two factors. Another factor analysis was done to validate the result using only development of new product/service, human resource, and market and another one for sales growth rate, market share, and operating profits. The first group was labeled driver measure of performance and the latter, outcome measurement of performance (Anthony and Govindarajan, 2001). The driver measures are also termed leading indicators as they indicate the progress of key areas necessary in implementing strategies. On the other hand, outcome measurements are indicators of the results of strategies, also termed lagging indicators (Anthony and Govindarajan, 2001). A previous study using the same data set (Mendoza et al., 2005) found that although the outcome measure was correlated with the driver measure, only the latter measure of performance was correlated with the variables measuring quality of implementation of corporate strategy, behavioral control, and structures at the board level supporting corporate governance. Thus in this study, only the driver measure of performance was used.

On the other hand, the measure of quality of implementation (this variable was also used as the independent variable in hypothesis 1) was obtained by asking respondents to rate the level of implementation of such practices using the following scales:

1. No formal document/unit/process and not practiced.
2. There is no formal document/ unit/process but somehow practiced. There is formal document/ unit/process but implementation is problematic.
3. There is formal document/unit/process and for the most part, implementation is smooth.

The scale examined two aspects: the degree of formalization and the smoothness of implementation. The highest level of implementation is one where the organization has a formal document for a particular practice, and implementation is smooth. On the opposite is one where these practices are nonexistent.

Independent Variables

The independent variable used in the first set of hypotheses was quality of implementation of policies and practices described in the preceding section.

The second set of hypotheses utilized HR involvement in the formulation of policies and strategies aimed at supporting corporate governance objectives as the independent variable. The measure of level of involvement was obtained by asking respondents to identify HR's involvement in the design and development of the various HR activities and practices that support corporate governance objectives using the following scales:

1. HRM is not consulted.
2. HRM is consulted during implementation only.
3. HRM is consulted from time to time during formulation.
4. HRM is involved from the start. It is part of the strategic management team.

Two dimensions were likewise considered in measuring involvement of HR: involvement in the formulation and involvement in the implementation of the practice. The highest level of involvement would be where the HR function is involved from the outset of any initiative pertaining to these practices. On the other extreme is where HR is not consulted at all in the formulation or implementation of these practices. Again, inasmuch as the concepts were derived from several sources there was a need to determine their dimensions empirically using factor analysis (Snell, 1992). Items that did not have clear factor loadings were removed. Each time this happened, another run of factor analysis was performed until a clear relationship emerged. Cronbach's Alpha was computed to determine consistency of items identified with a concept.

In addition, two institutional variables were also studied: public listing and MNC status. Public listing is a binary variable where an organization is coded 1 if it is publicly-listed and zero otherwise. Likewise, MNC status is a binary variable where an organization is coded 1 if it is a multinational corporation; otherwise, the organization is coded zero. These were also used as control variables in the equations testing the first two sets of hypotheses.

Control Variables

Variables that may affect governance practices were introduced. These are public listing and multinational status described above.

IV. RESULTS AND DISCUSSION

The average sample organization employed 1,240.7 workers and had been in existence for 28.7 years. It provided services. Although predominantly owned by Filipinos, it was not publicly-listed (Table 1).

Table 1
Profile of Respondent Organizations

Variable	Mean/Mode	Standard Deviation	N
Employment size	1240.7	3127.2	34
Years in business	28.7	20.0	35
Percentage of companies engaged in services	75.0		36
Percentage of companies predominantly owned by Filipinos	52.8		36
Percentage of companies not publicly-listed in the Philippine Stock Exchange	72.2		36

Table 2 presents the means and standard deviations, Cronbach's Alpha, as well as the correlations of the variables in this study. In general, involvement scores were higher than scores of quality of implementation but the differences were not statistically significant. However, significant differences were recorded in the comparison between HR involvement in the two areas of governance mechanisms and their respective implementation. It appears that the sample organizations had higher involvement and implementation scores in behavioral control mechanisms compared to strategic planning process.

Table 2
Means, Standard Deviations and Correlations of Selected Variables

Variable	Mean	Standard Deviation	N	1	2	3	4	5
1. HR Involvement in the Strategic Planning Process	3.44	0.80	28	1				
2. HR Involvement in the Development of Behavioral Control Mechanisms	3.66	0.67	29	0.718**	1			
3. Quality of Implementation of Elements of Strategic Planning Process	3.37	0.69	30	0.403*	0.022	1		
4. Quality of Implementation of Behavioral Control Mechanisms	3.51	0.57	35	–.063	0.114	0.481**	1	
5. Perceived Performance (Driver Measures)	3.03	0.95	31	–0.099	–0.01	0.451*	0.514**	1

**p< .05* ***p<.01*

Table 3 presents the result of regression analyses with the driver measure of performance as the dependent variable. Initial regression analysis showed an outlier in observation 35. Instead of deleting the observation, a dummy variable was used to represent it.

Model 1 shows that the quality of implementation of the elements of corporate strategy is positively related to the driver measure of performance (β = 0.701, $p < 0.01$). This result supports hypothesis 1a, which states that the quality of implementation of elements of corporate strategy is positively related to performance. Moreover, model 2 shows that the quality of implementation of policies and practices aimed at behavioral control was positively related to performance (β = 0.759, $p<0.01$). This supports hypothesis 1b, which states that the quality of implementation of behavioral control mechanisms is positively related to performance.

Table 3
Results of Regression Analyses: Driver Measure of Performance

	Model 1	Model 2	Model 3	Model 4	Model 5
HR Involvement in the Strategic Planning Process			0.010		*–0.647
HR Involvement in the Development of Behavioral Control Mechanisms				0.0006	0.499
Quality of Implementation of Elements of Strategic Planning Process	**0.701				*0.718
Quality of Implementation of Behavioral Control Mechanisms		**0.759			–0.233
Listing	0.420	+0.496	+0.454	0.402	+0.416
MNC	–0.166	0.264	0.005	0.006	–0.245
Dummy for Outlier	**–2.616	**–2.271	**–2.172	**–2.236	**–2.490
Constant	0.811	0.237	**3.555	**3.261	+2.145
R^2	0.604	0.623	0.54	0.530	0.694
F	**8.002	**10.312	**5.577	**5.358	4.868

*+p<0.10 *p< 0.05 **p<.01*

These results are consistent with studies showing positive relationship between HR practices and measures of firm performance (Huselid, 1995; Delaney and Huselid, 1996; Koch and McGrath, 1996; Arthur, 1994; Supangco, 2001a, 2003). The results show consistency with the argument that strategic plan provides the framework for employee behavior and when such are aligned with organizational and other stakeholders' interests, they can positively impact on organizational performance. Moreover, behavioral control practices enable employees to act in ways that are consistent with organizational values. Implementation is a complex process, which becomes embedded in an organization's social network, which could become a source of competitive advantage.

Model 3 shows that HR involvement in strategy formulation was not associated with performance, which did not support hypothesis 2a. In addition, model 4 shows that HR involvement – in the formulation of policies and practices aimed at behavioral control – was not associated with performance, which likewise did not support hypothesis 2b. The preceding results show that none of the variables pertaining to the involvement of HR in strategy or policy formulation was related to the driver measure of performance. This is parallel to results showing that some HR practices are adopted not necessarily because they impact on the bottom line (Martell and Carroll, 1995b). The null results imply that involvement of HR in strategy formulation may not after all be a source of sustained competitive advantage for it may be easily imitated and substituted (Wright, McMahan, and McWilliams, 1994). Indeed some of these practices have really been institutionalized and do not necessarily contribute to sustained competitive advantage (Huselid et al., 1997).

In model 5, all the variables of interest were introduced. The quality of implementation of elements of corporate strategy remained to be significant (β = 0.718, $p < 0.05$) but the quality of implementation of behavioral control practices ceased to be significant. Moreover, HR involvement in strategy formulation was now significant (β = –0.647, $p<0.05$) but the sign is negative. The result implies that the effect of quality of implementation of behavioral control was due to the quality of implementation of the elements of strategy. These findings strongly support hypothesis 1a and weaken the support of hypothesis 1b.

Table 4 presents results of regression analyses with quality of implementation as the dependent variable. Model 6 shows that HR involvement in strategy formulation was significantly associated with the quality of implementation of the various elements of the strategic plan (β = 0.368, $p<0.05$) In addition, when HR involvement in the formulation of policies and practices aimed at behavioral control as well as the quality of implementation of such policies and practices were introduced, HR involvement in strategy formulation became highly significant with (Model 7, β = 0.714, $p<0.01$).

The results provide support of hypothesis 3a, which states that HR involvement in the formulation of elements of corporate strategy is positively related to the quality of implementation. HR involvement in strategy formulation enhances the alignment of HR practices with the organization's strategy (Buyens and De Vos, 2001). HR involvement also provides HR critical information important in keeping the organization's mission and values alive, and to the extent that resources including HR are examined in goal setting, a broader range of solutions to complex problems becomes more likely and makes for more effective implementation (Lengnick-Hall and Lengnick-Hall, 1988).

Table 4
Results of Regression Analyses: Quality of Implementation

	Strategic Plan Elements		**Behavioral Control**	
	Model 6	**Model 7**	**Model 8**	**Model 9**
HR Involvement in the Strategic Planning Process	*0.368	**0.714		**–0.467
HR Involvement in the Development of Behavioral Control Mechanisms		**–0.528	0.002	*0.372
Quality of Implementation of Elements of Strategic Planning Process				**0.541
Quality of Implementation of Behavioral Control Mechanisms		**0.734		
Listing	0.009	–0.101	0.004	0.007
MNC	*0.529	**0.476	0.003	+–2.116
Constant	**2.040	0.114	**3.387	**2.116
R^2	0.329	0.659	0.017	0.422
F	*3.757	**8.128	0.145	*3.064

$^{+}p<0.10$ $^{*}p<0.05$ $^{**}p<0.01$

Model 8 shows that HR involvement in formulation of policies and practices aimed at behavioral control was not associated with the quality of their implementation. When HR involvement in strategy formulation and the quality of its implementation were introduced (Model 9), HR involvement in the formulation of policies and practices aimed at behavioral control became significant (β = 0.372, $p<0.05$). Thus the results provide support, although weakly, of hypothesis 3b. The weak support may be attributed to the fact that behavioral control practices such as performance management, performance measurements, code of ethics/discipline for employees, and structured process of compliance with rules and regulations have traditionally been under the domain of the HR function and may have been institutionalized and taken for granted.

This study also looked into institutional factors that may explain HR involvement in corporate governance. Public listing status of a corporation was not significant in explaining quality of implementation of HR practices supporting corporate governance. However, multinational corporations have generally higher quality of implementation of strategic plan elements (Model 6, $\beta = 0.529$, $p<0.05$; Model 7, $\beta = 0.476$, $p<0.01$) but showed, although weakly, lower quality implementation of behavioral control (Model 8, $\beta = 0.003$, ns; Model 9, $\beta = -2.116$, $p<0.10$). The results support hypothesis 4b, but did not support hypotheses 4a, 4c, and 4d.

V. CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

This study has provided empirical results of the role of HR in corporate governance in selected Philippine organizations. Of interest were two governance mechanisms: strategic plan elements and behavioral control practices. This paper made a distinction between involvement of HR in formulating policies, practices and the quality of implementation of such practices. It is shown that the quality of implementation of strategic plan elements as well as the quality of implementation of policies aimed at behavioral control are positively related to the driver measure of performance. Corporate strategy and its various elements such as mission and corporate values statements provide framework for employee actions including those supportive of corporate governance. It enhances organizational performance to the extent that it reduces the uncertainty and ambiguity that are part of strategic decisions (Wilkins and Ouchi, 1983). Moreover, from the resource-based view perspective, implementation of plans and policies idiosyncratic to the organization becomes a source of competitive advantage and, hence, positively impacts on performance. While, the study did not find any relationship between HR involvement in strategy formulation, and the formulation of policies and practices aimed at behavioral control, and the driver measure of performance, the null result could mean, from a resource-based view perspective, that corporations in the sample have not developed the practice idiosyncratic to the firm to generate competitive advantage or the practice is diffused such that it is no longer a source of competitive advantage. Moreover, the effect of the various aspects of HR involvement may not be independent, rather, it may be moderated by some variables, which may be looked into in future studies.

However, HR involvement does impact on the quality of implementation of elements of strategic plan and behavioral control practice. To the extent that the process of involving HR in strategy formulation and in crafting policies aimed at behavioral control provides the venue through which information needed for implementation are exchanged and utilized, such results in higher quality of implementation.

The most important learning from this study is that quality of implementation more than involvement of HR impacts on performance. This result provides the economic case for implementing HR practices that support governance. More importantly, the quality of implementation of strategic plan elements is an important enabler of other practices. Its presence in the model made HR involvement in the formulation of policies aimed at behavioral control, which by itself was not significant in explaining quality of its implementation, significant.

While HR involvement was not significant in explaining performance, its importance lies in its positive relationship with quality of implementation. The economic case then for involving HR in the formulation of policies and practices lies in its potential to increase quality of implementation. However from an applied perspective, ensuring that involvement impacts on the bottom line becomes a challenge to practitioners as they have to rethink the nature of involvement of HR in the formulation of practices that support governance. Indeed in the full models (Models 5 and 9), HR involvement in the formulation of strategic plan elements was negatively related to performance and the quality of implementation of behavioral control. This may be a case of inordinate adoption of best practices (in this case involvement of HR in the formulation of elements of the strategic plan), which could be counterproductive as it diverts efforts from those, which the HR function should have focused on (Becker et al., 1997). However, from an institutional perspective, adoption of this practice may be an action that increases legitimacy.

Institutional variables also provided additional insight. Implementation of strategic plan elements was higher in multinational companies, but implementation of behavioral control practices was lower. The differences in governance mechanisms between local and multinational companies may be an area of future research. Public listing did not explain quality of implementation, however, it was marginally significant in explaining performance. Thus, while there was no direct effect of HR involvement on performance, its effect may be dependent on public listing. This is another area that may be explored in the future.

This study was based on agency theory, resource-based theory of the firm, and institutional theory. The role of HR in corporate governance may be examined using other lenses such as stakeholder and stewardship theories.

The results of this study should be considered tentative especially that sample size is small and only convenience sampling was utilized. Another limitation of this study is the threat of common method variance. Podsakoff and Organ (1986) suggested Harman's one factor test to assess the presence of common method variance. A factor analysis was performed on the original questionnaire items of interest. Five factors emerged with no one factor accounting for a majority of the variance. This result indicates that common method variance may not be a threat. Again, small sample size may not completely rule out the possibility of this threat.

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APPENDIX
Definition of Variables

1. HR involvement in strategic planning (HRISTRAT): average of involvement scores of mission statement, business strategy, HRM strategy, corporate values statement, and strategic planning process.
2. HR involvement in development of behavioral control mechanisms (HRICON): average of involvement scores of performance management, performance measurements, code of ethics/discipline for employees, and structured process of compliance with rules and regulations.
3. Implementation of the strategic planning process (PSTRAT): average of practices scores of mission statement, business strategy, HRM strategy, corporate values statement, and strategic planning process.
4. Implementation of behavioral control mechanisms (PCON): average of practices scores of performance management, performance measurements, and code of ethics/discipline for employees.
5. Perceived Organizational Performance: The initial factor analysis performed on the six Likert scale items generated two factors. Based on initial results, two factor analyses were performed on development of new product/service, human resource, and market and another one on sales growth rate, market share, and operating profits. The former was labeled driver measure of performance and the latter, outcome measure of performance. This study utilizes only the driver measure of performance (PPINPUT).