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## Relationship Between Human Resource Management Practices, Enterprise Strategy and Company Outcomes: Service Industry of China

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**Abstract:** This study explores the linkage between HRM practices, enterprise strategy and company performance in the context of Service Industry of China. A total of 110 employees in 90 randomly selected companies responded to self reported questionnaire which measured five HRM practices and subjective measures of enterprise strategy and company performance. The study examined five HRM practices such as recruitment and selection, training and development, employee participation, compensation and reward and performance appraisal. Structure equation modeling and Multiple Regressions were used to measure the linkage between HRM practices, enterprise strategy and company performance. The results indicated that all HRM practices are significantly and positively correlated with company performance. In particular, training and development practices are seen to be significantly related with capacity to deliver quality service and on firm sale growth as perceived by managers surveyed. Recruitment and selection methods that are used more by banks and advertising firms have contributed to better firm performance. Not all formalized HR practices lead to increase firm performance and the degree to which HR is perceived to have impacted on firm performance varies. HR managers, practitioners and firms could benefit greatly if focused on these practices to improve their company performance.

**Key words:** Human resource management practices, enterprise strategy, company performance outcomes, service industry, service quality, technical innovation, China

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### INTRODUCTION

It is widely accepted that employee constitute a vital part of organization resource with the potential to enhance the organization's sustainable competitive advantage. A company can achieve a competitive advantage and reach its goals by adopting an efficient usage of its personnel (Price, 2004). Most of the previous empirical studies have established a relationship between human resource management practices and firm performance (Huselid, 1995; Delery and Doty, 1996). In modern years, as the proportion of service sector in the national economy of both developed and developing countries has enhanced, the focus has transferred to address the need to follow high quality services, through a set of sophisticated "high cost and high skill employment tactics (Francis and D'Annunzio-Green, 2005). The service sector is pretty heterogeneous,

including finance, banking, advertising, transport, import and export, hospitality and telecommunications industries. Recent studies linking strategy and human resource management usually highlight people related activities that company execute. Efficient enterprise strategy systemically manages all HR measures to persuade directly employee thoughts and performance in a way that guides business to accomplish its competitive strategy (Huang, 2001).

The present study adopts the best practices approach to examining the relationship among HRM practices, enterprise strategy and their impact on firm performance in service companies of China. It contributes to the existing literature in two ways. First, it examines the factorial validity of the five HRM practices, enterprise strategy in the context of Chinese service firms using a large sample that cuts across firm age, size, industry sector and location of the service firms.

The results of study will help to determine whether or not measures the relationship among HRM practices, enterprise strategy and firm performance can be generalized across organizations and countries to facilitating comparative research. Second, the study examine how these HRM practices impact a firm's performance and perceived performance indicators such as quality service, sale growth and technical innovation. This will help identifies a set of HRM practices that influence these performances indices. In addition, it will add information to the limited empirical knowledge about linkage among HRM practices, enterprise strategy and firm performance for specifically emerging economy of China, where the strategic role of HRM is gaining popularity. The present research is divided into three major parts. The first part deals with the concept of human resource management practices, enterprise strategy and company performance and the second part present methodology and data analysis. Finally, the third part discusses results and illustrates HRM practices in service industry in China.

#### LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

**Human resource management practices:** The influence of HRM practices on company outcomes has become an important topic of research starting in the 1990s. Mondy *et al.* (2002) defined PM as the utilization of individuals to reach organizational goals. The study of human resource management includes HRM practices such as training and development, recruitment and selection, performance appraisal and compensation and reward as important elements in the success of organizations.

**Recruitment and selection:** Selecting and recruiting the right people into the service business is crucial to achieve business success (Yeung, 2006). Recruitment and Selection refers to organizational activities that manipulate numbers and types of job applicants. The accomplishment of organizations relies on the reality that whether they can get the right people in the right place at the right time.

**Training and development:** The extent to which the service firms stress the importance of various skill developments and training was evaluated. Training and development are the process by which individuals change their skills, knowledge, attitudes and behavior (Robbins and DeCenzo, 1998). Training involves designing and supportive learning activities that resulted in a desired level of performance. Training and

development are the most commonly used strategy to foster employees 'commitment to companies. In China, most of the studies showed that providing continual training and development opportunities are a factor that improves employee retention. The training and development is also associated with higher job and company satisfaction (Zhang and Carter).

**Participation of employees:** Batt (2002) found that high-involvement practices may influence organizational performance and that employees' involvement in problem-solving and self-directed teams may increase self-sufficiency and satisfaction. The literature proposes that the ability of an employee to make the appropriate answer during the service delivery process is a function of the employee's knowledge and control (Bitner *et al.*, 1990).

**Performance Appraisal:** Performance Appraisal is the procedure of assessing how well employees execute their jobs when match up to a set of standards and then communicating that information to those employees (Mathis and Jackson, 2004). If required to assess performance on a numerical scale, Chinese managers are likely to select poor ratings for subordinates' performance; this may cause the poorly rated employee to loose face and disrupt the manager-subordinate relationship.

**Compensation and Rewards:** The efficiency of capable employees is possibly to be inadequate if they are not motivated to perform. One way that organization can motivate employees and performance is to offer performance based compensation (Delaney and Huselid, 1996). Salary is Chinese employees' biggest concern in the overall compensation. A reward and compensation system is based on the expectancy theory which propose that employee are more likely to be motivated when there is a strong association between their performance and the reward they receive (Fey *et al.*, 2000).

#### HUMAN RESOURCE MANAGEMENT PRACTICES AND COMPANY

**Performance:** A number of theoretical and empirical studies have linked HRM practices to the performance of the firm. Recent studies reflect an impressive influence of HRM practices on organizational performance. Batt (2002) examined the relationship between human resource practices, employee quit rates and organizational performance in the service sector. His findings confirm that, firms emphasizing high skills, employee participation

in decision making and in teams and human resource incentives such as high relative pay and employment security, have lower quit rates and higher performance. Mondy *et al.* (2002) thought the practices of PM include five basic functions, including staffing, human resource development, compensation and benefits, safety and health, employee and labor relations and so on. Furthermore a positive relationship between HRM practices and service performance was also confirmed.

According to the above discussion, this study shows that performance of service companies can be improved by HRM practices.

**Hypothesis 1:** Human resource management practices are closely linked with performance of service companies.

#### **HUMAN RESOURCE MANAGEMENT PRACTICES AND ENTERPRISE**

**Strategy:** It is important for the companies to establish HRM practices that suit their business strategies if they want to generate high profits (Taylor, 1999). In both the administration and the academic literature, it is usually recognized that the strategic deployment and management of human resource can contribute to the success, growth and continuity of the firm. A number of other researchers have investigated the relation between enterprise strategy and human resource management (Lorange and Murphy, 1984; Nkomo, 1984; Brewster, 1994).

According to behavioral perspective, HRM practices should be linked to enterprise strategy. Now, there are a rising number of empirical studies that sustain this perspective (Schuler and Jackson, 1987). Based on the above statement, this study therefore proposes a second hypothesis.

**Hypothesis 2:** There is close association between HRM practices and business strategies of service companies.

#### **ENTERPRISE STRATEGY AND COMPANY PERFORMANCE**

The key for higher firm performance is firm strategy formulation and implementation decisions (Hill and Jones, 1995). Strategic thinking, as an emerging critical characteristic of the management process, includes the competitive moves and business approaches that produce successful performance. While it is clear that strategic thinking is an important step to achieving business success. Lee (2000) conducted an empirical study of the

relationship between business type, strategy and performance of Chinese medicine industry in Taiwan. But there are a small number of empirical researches examining the relationship between enterprise strategy and firm performance in service industry. Based on the above discussion, this study proposes the third hypothesis.

**Hypothesis 3:** strategic orientation is related to higher company performance.

#### **HRM PRACTICES, ENTERPRISE STRATEGY AND COMPANY**

**Performance:** Delery and Doty (1996) have recommended that a good fit between HRM strategies and the enterprise strategy of the firm tend to lead to superior outcomes. In other words when the company's HRM practices support service firm strategy, superior performance is expected. The resource-based view has prompted recent work on how HRM practices contribute to firm performance by influencing human capital, unrestricted effort and desired attitudes and behaviors (Becker and Gerhart, 1996; Wright *et al.*, 1994).

The enhanced competition in the marketplace of service firms has brought about the need to manage HR strategically so that it becomes a source of competitive advantage (Chew and Sharma, 2005). Based on the above statement, this study therefore proposes a fourth hypothesis.

**Hypothesis 4:** Incorporating HRM practices with enterprise strategy will be significantly and positively linked with company performance of service firms.

#### **THEORETICAL FRAMEWORK**

Integrating the literature review and hypotheses of the studies described in the previous chapter, this study proposes a research model (Fig. 1).

Company performance is the dependent variable which is measured by service quality, sale growth and technological innovation. HRM practices are the independent variables which are measured by recruitment and selection, training and development, compensation and reward, employee participation and performance appraisal. Enterprise strategy is a mediating variable.

#### **METHODOLOGY**

**Sample:** To investigate the linkage between HRM practices, enterprise strategy and company performance in Chinese service firms, a large-scale questionnaire

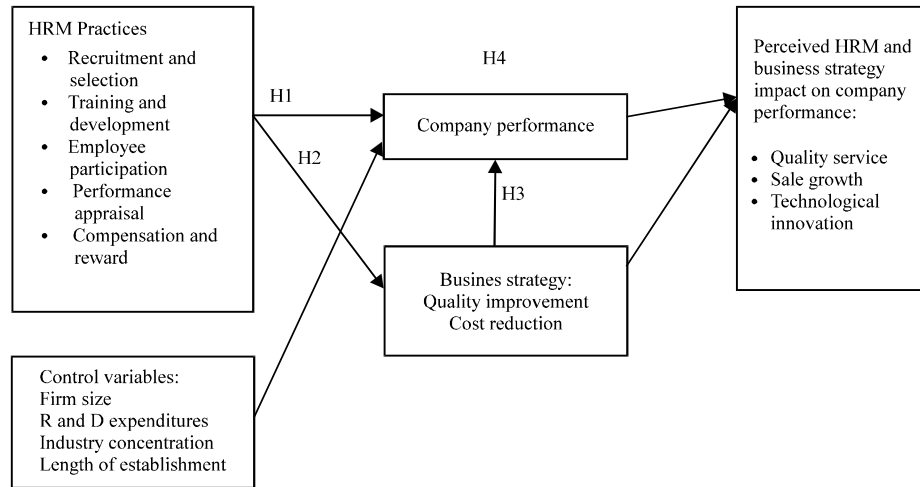


Fig. 1: Theoretical model of the study

survey was conducted in three major cities, Beijing, Shanghai and Tianjin. These three cities were selected based on their level of economic openness and development. Beijing is the capital of the China and one of most popular cities in the world, located in northern China. Shanghai is China’s economic and financial center and has the highest per capita GDP among all Chinese cities. Tianjin is sixth largest city of china, located in northern China. In comparison with the other two cities, Tianjin is less developed in terms of GDP per capita, infrastructure, household consumption and human resource development. This study based on the sample frame of China Industrial Enterprises Database, compiled by the China State Statistics Bureau, to cover the manufacturing and service sectors.

The study commute only service sector data. The service sector includes enterprises in insurance and banking, import and export trading and retailing (department stores) and advertising. A sampling plan was developed to ensure that appropriate respondents were included in this study. To request participation from the selected firms and contacted the firms by telephone and through our interpersonal networks. If a particular firm refused our enticement, the study survey substituted it with another firm in the same industry. Then mailed 500 questionnaires to these enterprises with the promise that their individual responses would remain confidential. And received 312 usable questionnaires, a response rate of 62.4%. Table 1 shows the characteristics of the sample. Firms with an age of 3-5 years constituted 23.01 of the sample, 30.7 were 6-10 years old and 13.7% were older than 15 years. Small firms with fewer than 100 employees

Table 1: Characteristic of companies

Characteristics	Categories	Frequency	Percentage
Firm age	<3 years	16	5.12
	3-5 years	72	23.00
	6-10 years	96	30.70
	11-15 years	85	27.20
	>16 years	43	13.70
Firm size	<150	63	20.10
	151-300	49	15.70
	301-500	79	25.30
	501-2000	86	27.50
	>2000	35	11.20
Nature of business	Insurance	55	17.60
	Banks	63	20.10
	Import and Export	93	29.80
	Trading	62	19.80
	Advertising	39	12.50
Location	Beijing	112	35.80
	Shanghai	98	31.40
	Tianjin	102	32.60

accounted 20.1, 25.3% of the sample were medium firms with 100-500 employees, 27.5% were large firms with 501-2,000 employees and the remaining. Of these service firms, 35.8% were from Beijing, 31.4% were from Shanghai and the rest were from Tianjin.

**Research Instrument:** Based on review of literature, the research instrument included items that assessed HRM practices effectiveness (20 items) from (Delery and Doty, 1996; Ahmad and Schroeder, 2003; ‘Enterprise strategy’ (8 items) from Huang (2001) and Shih and Chiang (2005) and ‘firm performance’ (total six items): Service quality (Dyer and Reeves, 1995), Cost reduction, from Butler and

Leong (2000), innovativeness from Christiansen *et al.* (2003). Thus, a 40 item survey questionnaire was developed to obtain the responses from managers. Respondents were asked to rate their answers on multi-item scale. The scale ranged from five (strongly agree) to one (strongly disagree).

**Control variable:** Recent review of the literature (Huselid 1995; Jackson and Schuler, 1995) suggests that a variety of conditions in the external and internal organizational environments influence HRM activities, enterprise strategy and company performance. To reduce the possibility of fake results caused by correlations among these variables and our construct of interest, survey included following control variable: Firm size and research and development expenditures; length of establishment. Survey calculated research and development expenditures directly by accounting data. Industry concentration was calculated by dividing sales from the relevant industry largest four companies by the total sales for that industry.

**RESULTS AND DATA ANALYSIS**

**Factor Analysis and reliability of the measurement variables:** To check the measurement degrees and recognize their dimensionality, principal component factor analysis with varimax rotation was applied to reduce the collected data into certain factors. After factor analysis has been done and internal consistency analysis (Cronbach’s alpha) were verified to authenticate the reliability of each research factor. In this study, measurement items with a factor loading greater than 0.6 were selected as the component of a specific factor. Furthermore, the result of internal reliability above 0.7 which is well above the standard presented by Nunnally (1978). If the  $\alpha$  is greater than 0.7, it indicates that it has high reliability and if  $\alpha$  is smaller than 0.3, then it entails that it has low reliability. Hence, this is clear that the instrument used in this study had strong internal reliability and it could be used with confidence for the application of further statistical analysis and interpretation.

Factor analysis was utilized to recognize the dimensionality of each research item, to select questionnaire items with high factor loadings and to evaluate these selected items with items suggested theoretically. Coefficient alpha were evaluated to recognize the internal consistency and reliability of the construct. Latent roots (Eigen values), accumulated variance and other criteria were employed to verify the number of dimensions to be extracted from the principal

component factor analysis. The selected criteria are: Factor loading 0.6, Eigen value .1, accumulatively explained variance 0.6 and coefficient alpha ( $\alpha$ ) 0.7 (Nunnally, 1978).

Table 2 present the results of factor loadings for measurements of human resource management practices. The Table 2 shows that a total of 22 variables .The internal consistencies of all these variables are also presented. It is illustrated that, Cronbach’s alpha for the factors exceeds the generally accepted guideline of 0.7 (Nunnally, 1978) which ranges from 0.803-0.924, that is above the acceptable level. It is shown that those variables within a factor tend to have a high coefficient of item-to-total correlation of training and development ranges from (0.690-0.805), employee participation (0.740-0.801), compensation and reward (0.806-0.901), recruitment and selection (0.759-0.883), performance appraisal (0.726-0.805), strategy fit performance (0.751-0.883) (higher than 0.5) that suggests a high degree of item to item correlation and internal consistency for each dimension.

Table 3 present the results of factor loadings for measurements of firm performance and perceived performance indicators such as quality service, sale growth and technological innovation. The Table 3 shows that a total of 14 variables .The internal consistencies of all these variables are also presented. It is illustrated that, Cronbach’s alpha for all the factors exceeds the generally accepted guideline of 0.7 (Nunnally, 1978) which range from 0.901-0.941, that’s above the acceptable level. It is illustrated that those variables within a factor tend to have a high coefficient of Item-to-total correlation of

**Table 2: Results of reliability analysis on personnel management practices**

Factor	Research items	Factor loading	Eigen value	Acc.explained variance (%)	Cronbach’s $\alpha$
Training and development	T and D1	0.805	2.846	71.15	0.863
	T and D2	0.772			
	T and D3	0.695			
	T and D4	0.69			
Employee participation	E and P2	0.801	2.17	72.326	0.803
	E and P3	0.743			
	E and P1	0.740			
Compensation and reward	C and R3	0.901	3.269	81.721	0.924
	C and R1	0.883			
	C and R4	0.815			
	C and R2	0.806			
Recruitment and selection	R and S3	0.883	3.18	79.501	0.912
	R and S2	0.871			
	R and S1	0.794			
	R and S4	0.759			
Performance appraisal	P and A3	0.805	3.013	75.313	0.89
	P and A2	0.774			
	P and A4	0.731			
	P and A1	0.726			
Strategy fit performance	SFP2	0.883	2.507	83.573	0.902
	SFP3	0.873			
	SFP1	0.751			

company performance (0.845-0.948), quality service (0.807-0.869), sale growth (0.785-0.889), technological innovation (0.770-0.917) which is higher than 0.5, that suggests a high degree of Internal consistency and item to item correlation for each dimension.

Table 4 demonstrate the results of factor loadings for measurements of enterprise strategy which is measured by quality improvement and cost reduction. The Table 4 illustrates that a total of 7 variables. The internal consistencies of all these variables are also presented. It is also illustrated that, Cronbach's alpha for all the factors exceeds the generally accepted guideline of 0.7 (Nunnally,

1978) which range from 0.885-0.960. Which is above the acceptable level. Latent roots (Eigen values) and other criteria were used to determine the number of dimensions to be extracted from the principal component factor analysis. The selected criteria are: factor loading >0.7, Eigen value >1, accumulatively explained variance >0.6, item-to-total correlation >0.5 and coefficient alpha >0.7 (Wu, 2005).

Table 5 shows the criteria of the proposed model and the results of variables in this study.

From Table 5, all the indices are supported in this study and they represent a good fit.

Mean values, standard deviations and inter-correlations were summarized in Table 6. On a bivariate level, firm performance and performance indicators such as quality service, sale growth and technical innovation were positively related to all HRM practices.

Table 3: Results of reliability analysis on firm performance

Factor	Research items	Factor loading	Eigen value	Acc.explained variance (%)	Cronbach's α
Firm performance	FP3	0.948	2.684	89.466	0.941
	FP4	0.871			
	FP2	0.865			
	FP1	0.850			
	FP5	0.845			
<b>Perceived performance indicators</b>					
Quality service	QS3	0.869	2.509	83.618	0.901
	QS1	0.832			
	QS2	0.807			
Sale growth	SG2	0.889	2.545	84.825	0.91
	SG3	0.870			
	SG1	0.785			
Technical innovation	TI3	0.917	2.577	85.885	0.917
	TI2	0.889			
	TI1	0.770			

Table 4: Results of reliability analysis on business strategy

Factor	Research items	Factor loading	Eigen value	Acc.explained variance (%)	Cronbach's α
Quality improvement	QI1	0.948	2.778	92.61	0.96
	QI2	0.933			
	QI3	0.897			
Cost reduction	CR1	0.85	3.007	75.166	0.885
	CR2	0.841			
	CR3	0.79			
	CR4	0.726			

### FIRM CHARACTERISTIC'S IMPACT ON VARIOUS DIMENSIONS

ANOVA was utilized to recognize the impact of firm characteristics on various Dimensions. The SPSS 20.0 package software was used to analyze the data. The operated firm characteristic variables include firm age, firm size and nature of business and location of business. The dependent variables include the constructs of HRM practices, enterprise strategy and firm performance.

Table 5: Standard coefficients and model fit statistics

Fit model statistics	Conceptual model	Criterion	Reference
Chi square	2.431	<=3	Hair <i>et al.</i> (2006) and Wu (2005)
AGFI	0.962	>0.9	
GFI	0.915	>0.9	
NFI	0.904	>0.9	
CFI	0.982	>0.95	
RMR	0.032	<0.05	
RMSEA	0.054	<0.08	

Table 6: Means, standard deviations and correlations for all variables

Variables	Mean	sd	1	2	3	4	5	6	7	8	9	10	11	12
<b>PM variables</b>														
Training and development	3.42	0.79372	1											
Employee participation	3.47	0.84210	0.619**	1										
Compensation and reward	3.56	0.90317	0.637**	0.893**	1									
Recruitment and selection	3.37	0.84345	0.829**	0.484**	0.405**	1								
Performance appraisal	3.48	0.83831	0.694**	0.699**	0.633**	0.660**	1							
Strategy fit performance	3.22	0.95859	0.102	0.135*	0.165**	0.073	0.063	1						
<b>Business strategy measures</b>														
Cost reduction	3.26	0.88272	0.443**	0.825**	0.814**	0.272**	0.549**	0.160**		1				
Quality improvement	3.51	0.84389	0.642**	0.491**	0.323**	0.750**	0.664	0.059	0.432**	1				
<b>Independent and control variables</b>														
Firm performance	3.34	0.95425	0.507**	0.643**	0.281*	0.671**	0.597**	0.037	0.265**	0.859**	1			
Quality service	3.33	0.84340	0.785**	0.506**	0.416**	0.799**	0.647**	0.026	0.335**	0.725**	0.631**	1		
Sale growth	3.35	0.93746	0.558**	0.322**	0.248**	0.702**	0.645**	0.057	0.169**	0.714**	0.882**	0.584**	1	
Technical innovation	3.48	0.89488	0.736**	0.762**	0.840**	0.515**	0.688**	0.123*	0.621**	0.405**	0.271**	0.510**	0.341**	1

\*\*Significance at p<0.001 level (two tailed), \*Significance at p<0.05 level (two tailed)

The hypotheses testing Hypothesis 1, 2, 3 and 4 were tested by Structure Equation Model (SEM). Structure Equation Model includes a whole family of models recognized by names, among them covariance structure analysis, latent variable analysis, confirmatory factor analysis and often simply LISREL analysis. SEM can also be used as a means of estimating other multivariate models, including regression, principal components, canonical correlation and ANOVA.

The AMOS 9.0 package software was used to analyze the relationships in the entire research model to find out the relationships among variables in this model. The criteria of chi-square divided by degree of freedom, Goodness-of-Fit Index (GFI), Adjusted Goodness-of-Fit Index (AGFI), Normed Fit Index (NFI), Comparative Fit Index (CFI), Root-Mean-square Residual (RMR) and Root Mean Square Error of Approximation (RMSEA) were employed to estimate the overall goodness of fit of the model. Five criteria in this study were used to test the fit of this model and they are from (Wu, 2005; Hair *et al.*, 2006).

The first one is the ratio of chi-square/degree of freedom. If chi-square/d.f. is less than 3, it is considered as a good fit to the data. The second, third and fourth criteria are the GFI, AGFI and NFI. The values of those three indices should be greater than 0.9. The fifth one is

the CFI which should be greater than 0.95. The sixth is the RMR. The smaller the RMR is, the better the fit of the model. A value of less than 0.05 indicates a close fit. And the last index is the RMSEA. RMSEA is acceptable when the value is less than 0.08.

**PERCEIVED IMPACTS OF HUMAN RESOURCE MANAGEMENT PRACTICES AND ENTERPRISE STRATEGY ON SERVICE FIRM PERFORMANCE**

The extent to which the five HRM practices and enterprise strategy affect firm performance and perceived PM practice and enterprise strategy impact on service firm performance (proxied by service quality, sale growth and technical innovation relationships) were analyzed using multiple regression as displayed in Table 7.

The results from Model 1 indicate that, taken together, the HRM practices and enterprise strategy considerably contribute to firm performance outcomes ( $F(13, 142) = 2.460, p < 0.01$ ). Likewise, perceived impact of PR practices and enterprise strategy on all three service firm performance indicators are significantly correlated with PR practices and their outcome, as the indicators for all three models 2, 3 and 4 are significant (Table 5). In particular, model 2 as a whole enlightens approximately

Table 7: Regression analyses

Variable entered	Model 1 firm performance	Model 2 perceived impact of PM and enterprise strategy	Model 3 perceived impact of on firm quality service PM and Enterprise strategy on firm sale growth	Model 4 perceived impact of PM and Enterprise strategy on firm technical innovation
<b>Control variable</b>				
Age (log)	0.02	-0.23**	0.01	0.04
Size(log)	0.06	0.01	-0.25**	0.03
<b>Nature of business</b>				
Insurance(referent)				
Banks	0.04	-0.04	0.06	-0.03
Import and Export	0.07	0.12	-0.22*	0.21*
Trading	0.05	-0.13	-0.11	0.02
Advertising	0.01	0.08	-0.07	-0.04
others	0.02	-0.01	-0.03	-0.06
<b>Location</b>				
Beijing(referent)				
Shanghai	-0.13	0.21**	0.15	0.04
Tianjin	-0.01	0.04	-0.02	-0.05
<b>PM measures</b>				
Training and development	0.657**	0.0473**	0.401**	0.358**
Employee participation	0.095	0.199*	0.357**	-0.338**
Compensation and reward	0.203**	-0.156*	0.327**	0.670**
Recruitment and selection	0.085	0.208**	0.113*	-0.138*
Performance appraisal	-0.120*	0.057*	0.165*	0.190*
Strategy fit performance	0.277**	0.077	0.289**	-0.019
<b>Business strategy measures</b>				
Cost reduction	0.182*	0.161*	-0.294**	0.020
Quality improvement	0.120	-0.054	0.377**	-0.152
F	2.46**	3.97**	2.13**	2.32**
R	0.190	0.58	0.93	0.89
R <sup>2</sup> adjusted	0.030	0.22	0.87	0.79
N	312.000	312.000	312.000	312.000

p ≤ 0.05 (one-tailed), \*p ≤ 0.05 (two-tailed), \*\*p ≤ 0.01 (two-tailed)



22% ( $R^2$  adjusted = 0.226) of the variance, recommending that the combination of specific HRM practices and enterprise strategy the attempt invested in firm service quality was perceived by the respondents in the survey to possibly make considerable contribution to the service firm growth ( $F(12, 341) = 3.972, p < 0.01$ ).

Even though the variances of HRM practices and enterprise strategy used to explain the perceived impact on sale growth and technical innovation were comparatively small, Models 3 and 4 are still statistically significant. The impact of PM and enterprise strategy on sale growth ( $F(12, 342) = 2.1376, p < 0.01$ ) was perceived to be significantly impacted by training and development ( $\beta = 0.401, p < 0.01$ ), quality improvement ( $\beta = 0.377, p < 0.01$ ) and strategy fit performance ( $\beta = 0.289, p < 0.01$ ). The impact of HRM and enterprise strategy on technical innovation was perceived to be largely influenced by compensation and reward ( $\beta = 0.670, p < 0.01$ ) and again moderately affected by the performance appraisal ( $\beta = 0.190, p < 0.01$ ).

At the same time, training and development and recruitment and selection were perceived to be moderately related to the perceived impact of HRM practices on firm productivity ( $\beta = 0.4730, p < 0.01$ ), ( $\beta = 0.208, p < 0.01$ ) and on sale growth ( $\beta = 0.401, p < 0.01$ ), ( $\beta = 0.113, p < 0.05$ ). At the same time as there were considerable relationships between compensation and reward and all three perceived performance indicators.

Collectively, these results emphasize the importance of HRM practices and business strategies like training and development, recruitment and selection and compensation and reward, cost reduction, quality enhancement which enhance employee and firm skill development and retention of competent staff to improve positive PM and enterprise strategy impact on organizational performance.

#### **FINDINGS OF CONTROL VARIABLES**

Table 7 shows age, size and sector had not a significant effect on firm performance and all indicators of performance. However, service firms located in Shanghai ( $\beta = 0.21^{**}, p < 0.01$ , two-tailed) had significantly more productivity, sale growth and firm performance than did those located in Tianjin. Results presented in Table 7 further show that the size of the enterprise did not significantly contribute to financial performance and the indicators of performance. Age significantly influenced this dimension. It appears that all other types of service firms were perceived to experience less growth than the import export firms ( $\beta = -0.22^{**}, p < 0.01$ ) and that more newly-set up service firms in Shanghai were seen to grow

faster than Tianjin, compared to the well-established ones ( $\beta = 0.21^{**}, p < 0.01$ ). Cities did not elucidate any differences in the perceived impact of HR and enterprise strategy on all firm performance indicators.

#### **DISCUSSION AND CONCLUSION**

This study shows that all HRM practices help to improve the performance of the company. Hence, hypothesis 1 is supported. Examining the perceived impact of HRM practices on service firm performance in China; this study has shown that there were significant relationships between the HRM practices and organizational outcomes, consistent with the argument from the "best-fit" model of PM-performance linkages Becker and Huselid (2006). The researchers found positive and significant link between investment in training and development activities and firms' performance (Kalleberg and Moody, 1994). Jyothi and Venkatesh (2006) found that competency-based pay and rewards improves quality of products and services, improves employees' behavior and reduces accidents rates in the organization, thereby making strong contribution toward organizational performance.

All five HRM practices have a close linkage with two enterprise strategies including cost reduction and quality enhancement. Therefore, Hypothesis 2 is supported and this result is harmonizing with other previous studies such as Delery (1998) revealed that the strategic perspective of PM observes the fit between various HRM practices and the company's business strategies. Business strategies do significantly and positively relate to firm performance outcomes. Hence, Hypothesis 3 is supported. The result is reliable with previous studies, such as Cheng (2003) who concluded that there is a significant relationship between enterprise strategy and firm performance. Cheng suggested that different business strategies will influence the results of firm performance. Therefore, Hypothesis 4 is supported.

In conclusion, the study has produced support that selected HRM practices and business strategies, in particular the training and development, recruitment and selection, performance appraisal, cost reduction and quality enhancement appear to be closely associated with service firm quality service and sale growth and that a higher level of firm performance is associated with sale growth and technical innovation as well. Two implications can be drawn from these results. First, in order to drive service firm quality service, sale growth and high technical innovative service delivery, it might be useful for service firms to focus on training and development, recruitment and selection, even though by simply

practicing this, it may lead to high levels of firm quality service and sale growth, at least in the short-term. Second, enterprise strategy like cost reduction and quality enhancement is certainly very important for firm growth and delivery of quality service in the longer term.

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