AIUB Journal of Business and Economics
Volume 12, Number 1
ISSN 1683-8742
November 2015 pp. 21-45

Role of Human Resource Management in Corporate Governance: A Critical Literature Review

Sutapa Bhattacharjee*
Rumana Afrin♣
Md. Mohiuddin♠

Abstract

Corporate Governance (CG) is concerned with the direction and control of the corporation (Supangco, 2006). This paper has reviewed related literature to indicate how modern corporations organize their relations with stakeholders along with issues of ownership and control within the firm. It has revealed the impacts of CG on the effectiveness of Human Resource Management (HRM) practices in achieving the productive objectives to which they have been set. The paper found that the national-level system of finance and CG also have an influence on labor management within the firm because of the relative importance national systems assign to such things as labor interests, time frames, strategy types, financial measures of performance, the use of market- based instruments to secure commitment and the extent of employer co- ordination. It has also discussed the linkage between forms of CG and labor management along with the relative importance of HRM in relation to CG and organizational performance. This paper has recognized how agency theory, stewardship theory, stakeholder theory are dominating the rise of governance in modern corporations in recent times along with institutional theory and resource based theory of the firm. Last but not the least, the paper emphasized on the relationship between CG and HRM after the problems of Enron and recent financial scandals such as "Madoff Affair". In a nutshell, the present paper argues that the most appropriate strategy in HRM research is to acknowledge the importance of both, internal firm resources and external features of the business environment, thus, drawing on the connection with CG.

Key Words: Corporate Governance, Human Resource Management, Role

* Institute of Business Administration (IBA), University of Dhaka
♣ American International University-Bangladesh (AIUB)
♠ Institute of Business Administration (IBA), University of Dhaka

Introduction

Without good staff and innovative governance, Corporate Governance (CG) is a rather empty concept. This is no less true of the public sector than it is of the private sector, since innovation plays a key role in creating 'enterprising public services' that produce public value as well as client satisfaction (Moore & Hartley, 2008). The study of CG has grown rapidly during the last decade, stimulated by the crises associated with Enron and other corporate scandals like "Madoff affair". More recently, the economic recession among major world economies, associated with the high risk lending in America to sub-prime borrowers, the subsequent collapse of credit and the demise of some of the world's largest financial institutions, have brought CG even further up the agenda of businesses, regulatory authorities and business school academics (Martin & McGoldrick, 2009). Governance, particularly of the major financial institutions, has become an everyday news item and the focus of contemporary history books (Ferguson, 2008; Peston, 2008).

CG describes how modern corporations organize their relations with stakeholders. In doing so, it is essentially concerned with issues of ownership and control within the firm (Berle & Means, 1932). CG therefore, impacts the effectiveness of HRM practices in achieving the productive objectives to which they have been set. Because the dispersion of responsibility for production, process improvement and innovation has been shown to significantly improve organizational performance through the cooperation of stakeholders in the productive process and their voluntary contribution of skills, experience and commitment to meet organizational objectives, CG plays a central role in the ability of firms to perform effectively over the long term (Black & Lynch, 1997; Huselid, 1995; Ichniowski et al., 1996; Pfeffer, 1998). Thus, conceived of in this way, it is has major implications for employees and how Human Resource Management (HRM) is practiced (Konzelmanet al, 2006).

HRM and Organizational Commitment

With growing recognition of the increasing returns to greater worker involvement in the planning and execution of work, as well as to worker self-regulation and a more democratic style of management, HRM has become an increasingly important component of organizational strategy (Appelbaum & Batt, 1994; Blyton & Turnbull, 1992; Guest, 1987). The widespread adoption of HRM testifies to a shift in labor management practice 'from coercion to the attempted production of self-regulated individuals' (Hollway, 1991). The field of HRM has evolved substantially during the past 90-100 years (Wright & Boswell, 2002).

With the intensification of competitive pressures, interest in better understanding and developing sources of sustainable competitive advantage has grown in recent years; and firms are placing changeable degrees of emphasis on strategic competencies in the form of intangible factors such as technological position, innovation, organizational design and HRM, depending upon the strategic orientation they adopt (Conant et al., 1990). In assessing the contribution these might make both to competitiveness and organizational performance, significant research attention has been focused on explaining the performance impacts associated with HR systems, typically referred to as 'High Performance Work Systems' (HPWS) (Wright & Boswell, 2002).

Insight into the interrelationship between systems of governance and systems of employment can also be found in the work of Gospel and Pendleton (2003), who, for example, argue that the incentives and governance structures found in the Anglo-American shareholder-based model force managers during hard times to shed labor and avoid investments that have uncertain returns, such as training (Konzelmann et al., 2006). Although the assumption is usually made that the firm's primary objective is profit maximization, Gospel and Pendleton (2003) found that whereas institutional investors may prioritize short term profits, shareholder value and liquidity, family owners are more likely to consider long-term organizational viability, control and private benefits to be the more important objectives. The key equity holders in an organization are therefore important in shaping HR practices because of the pressure that different classes of investors are able to exert on management and the influence this will have on the way that work is organized and labor is managed (Konzelmann et al., 2006).

The national-level system of finance and CG also have an influence on labor management within the firm because of the relative importance national systems assign to such things as labor interests, time frames, strategy types, financial measures of performance, the use of market- based instruments to secure commitment and the extent of employer co-ordination (Gospel & Pendleton, 2005; Konzelmann et al., 2006). In liberal market-based systems like the US and UK, for example, managers are required to pursue shareholder interests above those of labor, which often forces them to break implicit (psychological) contracts with labor in the interest of short-term shareholder value. Hall and Soskice (2001), too, suggest that intensified pressure from investors has shifted the balance against labor in managerial decision- making because of weaker statutory protection for labor.

There is evidence that corporate governance and HRM systems are inter-related at the national level, there are also inter-relationships between finance, governance and HRM within these systems. For example, some large listed firms in the UK (such as pharmaceutical companies) have stable and active relationships with investors and at the same time are committed to employment security, career opportunities and human capital development (Konzelmann et al., 2006). The extent to which managerial discretion is constrained and influenced by investor pressures is likely to be a function of the identity and activities of shareholders and managers (Gospel & Pendleton, 2003).

Importance of CG relating HRM Issues in Organizational Performance

The importance of HRM in gaining competitive advantage has been long recognized (Tichy et al., 1982; Schuler & 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 et al., 1996). These practices provide the infrastructure necessary for the organization to create value (Becker et al., 1997). Some authors argue that the HR function must be involved not only in strategy implementation but also, more importantly, in strategy formulation (Tichy et al., 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 (Supangco, 2006). Apparently, it cannot be assumed undeniably 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 & Montgomery, 1998). 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 CG objectives (Buyens & De Vos, 2001). There is, thus, a need to take a step backward and look at CG.

Having conferred the evidence for hypothesizing the connections between forms of CG and labor management, we now consider the relative importance of HRM in relation to CG and organization performance. The idea that an organization's Human Resources (HRs) are of critical strategic importance and that the skills, behaviors and interactions of employees have the potential to provide both the foundation of strategy and the means for strategy implementation, has led to the emergence of 'strategic' HRM (SHRM) (Dyer & Kochan, 1995; Lundy, 1994; Schuler et al., 1993; Truss & Grattan, 1994). Strategic HRM is not merely a subset of HRM or traditional HRM tagged with the word 'strategic.' According to Beardwell, Holden and Claydon (2004) SHRM is differentiated from HRM in a number of ways, primarily related to movement away from a micro-perspective on individual HR functions in the direction of a more macro-perspective (Wright & Boswell, 2002), with an emphasis on vertical integration (Guest, 1987) and horizontal integration (MacDuffie, 1995). This strategic orientation has important implications for the inter-relationship between HRM and governance (Konzelmann et al., 2006).

Most models of SHRM highlight the importance of 'flexibility' and 'fit.' 'Flexibility' represents the organization's capability of recognizing and adapting to changes in environmental pressures, opportunities and constraints (Snell et al., 1996). The concept of 'fit' assumes that meticulous types of business strategy are best supported by meticulous sets of employee behaviors and attitudes, which themselves are produced by meticulous 'bundles' of HRM approaches and policies (Capelli & Singh, 1992). 'Fit' has both vertical and horizontal proportions, where vertical fit involves alignment of HRM practices with the firm's strategic business approach (Schuler & Jackson, 1987) and horizontal fit involves consistency within bundles of HRM practices (Baird & Meshoulam, 1988). There are however conflicting views as to the meaning of strategic HRM and a number of approaches adopted from which to explore HRM which this paper does not allow us to go into; but from the point of view of this paper what is important is that strategic HRM is about enhanced organizational performance, whether this is in the 'hard' sense through cost reduction and efficiency driven practices, or through 'soft' high commitment and involvement-driven value added practices, and the decision about which model to adopt or which mix of models is likely to be driven by the form of governance of the organization and the business strategy adopted (Konzelmann et al., 2006).

It is essential to note that hard and soft models of HRM are not inevitably opposing or mutually exclusive; rather they form parts of a whole HRM strategy that may be more heavily subjective by aspects of one or the other. Regardless of the relative emphasis on hard and soft approaches, models of HRM assign central importance to commitment to the objectives of the organization (Guest, 1987; Legge, 1995; Walton, 1985), where commitment implies 'identification with the goals and values of the organization, a desire to belong to the organization and a willingness to display effort on behalf of the organization' (Mowday et al., 1982; Guest, 1987). Organizational commitment is important because it is seen to motivate workers to work harder and go 'beyond contract;' to self-monitor and control, eliminating the need for supervisory and inspection personnel; to persist with the organization, thereby increasing the returns to investments in selection, training and development; and to avoid collective activities that might lower the quality and quantity of individual contributions to the organization (Guest, 1987).

The objective of HRM is therefore to create a satisfying work environment while also rewarding the development of skills and creativity, thereby gaining competitive advantage (Handel & Gittlemann, 2004). The benefits are claimed to enlarge to both the organization and the individuals working for it. However, how and to whom the benefits enlarge has been a source of considerable debate. There is evidence to suggest that high performance work systems may bring benefits to the organization and its shareholders but not necessarily to employees. In fact, many studies show that these work systems disadvantage employees because 'performance gains from new management practices [give] rise instead [to] work intensification, offloading of task controls, and increased job strain' (Ramsay et al.; 2000). In this, CG may be a key contributing factor.

Operationalizing the analysis of CG and HRM

As a result of radical changes in employment legislation during the 1980s, it is arguable that UK managers are no longer constrained to a significant degree by regulative pressures or labor unions (Gooderham et al.; 1999). They are therefore free to adopt a mix of calculative and collaborative HR practices with different configurations and emphases relating to the form of CG. Various attempts have been made to identify 'best practices,' 'high commitment work practices' or 'high performance work systems' (Becker & Gerhart, 1996). In this study, those contributing to organizational performance that might be related to CG include information sharing and consultation (Huselid, 1995; Pfeffer, 1998), incentive systems (Arthur, 1994; Huselid, 1995; MacDuffie, 1995;

Delery& Doty, 1996; Pfeffer, 1998), training (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Pfeffer, 1998), organization of work including job design and working in teams (Arthur, 1994; MacDuffie, 1995; Pfeffer, 1998). Items relating to managerial commitment to HRM are included because the level of managerial commitment is influenced by form of CG and the degree to which managers are forced to prioritize the interests of others ahead of employees.

Guest et al. (2000)found that HR practices were still not embedded in most workplaces with few organizations having in place a coherent range of practices of the sort that would be associated with 'high commitment' or 'high performance' HRM (Marchington & Wilkinson, 2002). But it has not been shown whether the practices that are utilized have a relationship with the organization's system of CG. In examining the relationship between CG and HRM, it is also important to understand the meaning of performance and how it is measured. Many attempts have been made to identify a linkage between HRM and organizational performance; but these have largely been based on the common sense that improving the way people work and are managed leads to improved performance (Truss, 2001). One such attempt was made by Guest (1997), who sought to explain the intermediary linkage between HRM practices and HR outcomes such as productivity, organizational commitment and job satisfaction. His model proposed that high performance at the individual level (which ostensibly leads to improved performance at the organizational level) depends upon high motivation, possession of the necessary skills and abilities and an appropriate role and understanding of that role.

The Rise of Governance as an Issue in Modern Corporations

According to Clarke (2004; 2007) three theories of CG stand out: agency theory, stewardship theory and stakeholder theory. While the first of these, sometimes in a revised form, has dominated the agenda in recent times, the global financial crisis, which began in 2006/7 has brought the other two back into prominence as theories of regulating corporations to protect the wealth of stakeholders, especially where governments have had to increase the public's stake through taxpayer contributions. Apart from these three theories, in this paper we will discuss on institutional theory and resource based theory of the firm.

Stewardship theory argues that managers are stewards and act in the principals' best interest (Donaldson & Davis, 1991). It assumes pro-organizational and collectivistic behavior of the manager (Davis et al., 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 behavior, 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 behavior; and risk sharing problem arising from diverging risk preferences (Supangco, 2006). The implication of this theory is to engage in incentives that align agent and principal interests and in monitoring activities of the agent.

Stewardship theory and its progenitor, stakeholder theory, seek to explain how governance works in practice and how it should work in the future. As we have seen, agency theory proposes a self-interested model of management and in-built conflict with shareholders; stewardship theory proposes no such conflict of interests because good managers by dint of both will and skill are deemed to be naturally inclined to act in the interests of shareholders since their interests, and those of other stakeholders in the firm, are broadly similar and contingent on the long-term wealth creation of the organization.

According to the stakeholder theory view, firms are not merely bundles of assets that belong to shareholders, nor can they be in a modern world when the key assets are largely intangible and under the control of knowledgeable employees (Kay, 2004). Instead, governance structures and the work of senior managers are aimed at maximizing the total wealth of the organization for the benefits of those inside it that contribute firm-specific assets, i.e. their knowledge and skills, as well as those outside it. This theory fits in well with the assumptions of reputation management, which recognizes the importance of constituencies including customers, suppliers, employees, business partners, government, the press, investors and, increasingly, society at large. Like stewardship theory, this approach is closer to the models of governance found in continental Europe and Asia-Pacific countries than the Anglo- Saxon external focus on shareholder value model assumed by agency theory. It is also more consistent with insider control and newer forms of organizations discussed under stewardship theories that are a feature of continental Europe and Asia-Pacific.

There is a growing recognition of the role of institutions in HR practices. It was noted that some HR practices are adopted not necessarily for reasons of efficiency or impact on the bottom line (Martell & Carroll, 1995). The weak to moderate support for the positive relationship between HR involvement in strategy formulation and various measures of performance (Martell & Carroll, 1995; Bennett et al., 1998; Wright et al., 1998) seems to reinforce the idea that practices are continued to be adopted regardless of their impact on performance. Indeed, Huselid et al. (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 (Supangco, 2006). In addition, MNCs wanting to expand authenticity in the local market experience the pressure to engage in actions considered reasonable.

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 & 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 & Powell, 1983). There are different ways in which institutional pressures present themselves – coercive, mimetic, and normative forces (Di Maggio & 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 (Supangco, 2006). 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 & Powell, 1983).

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 (Supangco, 2006). 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 CG 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.

The concern for CG 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 & 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 & Zajac, 1994; Zajac & Westphal, 1994). Undoubtedly, we can say that 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 CG (Supangco, 2006).

Agency theory was the response of neoclassical economists to the question of controlling senior managers and executive boards in positing a contractual view of the firm (Martin & McGoldrick, 2009). Agency theorists pointed to a legal and symbolic contract between owners (the financiers of the business and thus the principals) and senior managers (their agents). Managers raised funds from financiers to operate the business; financiers, in turn, needed managers to generate returns on their investments. In essence the contract that ensued specified what managers would do with the funds and what the division of returns would be between the principals and agents. The main problem laid in the unforeseeable future incidents, leaving open the question of residual control rights - the rights to make decisions not foreseen by the contract. In reality, many neoclassical economists claimed that managers had significant control over these residual rights and could exercise great diplomacy over how to allocate funds. So, agency theory concerned itself with the central problem of how to confine managers from misallocating funds and acting in their own interests rather than those of the principal (Roberts, 2004; Khurana, 2002; Martin & McGoldrick, 2009).

Such thinking, especially following the global financial crisis in recent times, has been especially controversial among many politicians, academics, lawyers and some business people, leading to alternative theories of CG and the principles of which to run organizations in which the public has such obvious interests in ensuring they act responsibly and prudently. 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 behavior.

Is there a possibility of merging?

The success of the US economy during the 1990s, coupled with problems in Asia and continental Europe during the same period, provided a great impulse for outsider, Anglo-Saxon market-based shareholder value models of governance, and the assumptions underpinning those (Martin & McGoldrick, 2009). In countries such as Germany, Sweden and France, there were fervent calls by certain sections of the business and financial community and supporting political parties to embrace shareholder value principles and to liberate themselves of stakeholder constraints. However, as we are all aware, the problems of Enron and recent financial scandals such as the 'Madoff affair', 'Dynegy', 'Schlecker' have brought about a re-think over models of governance among American and British companies and attempts by the OECD to set world standards on corporate disclosure and governance.

One solution proposed by financial economists and lawyers who remain wedded to the core principals and benefits of agency theory is an enlightened shareholder value model, balancing the interests of investors with those of other stakeholders to ensure that the long-term interests of shareholders are achieved (Martin & McGoldrick, 2009). However, as Clarke (2004) and others point out, the 'sharpest skirmish' has been over the idea of shareholder value in any form following the scandals of Enron and other examples of corporate malfeasance (Gordon, 2004).

Given these examples of the system breaking down, (Coffee, 2004; Ferguson, 2008; Kay, 2004) critics believed the ability of directors to monitor executive behavior and the temptations of making enormous gains by cashing in the huge stock options that form the basis of many executive pay packets have created an unworkable system (Bebchuk & Fried, 2003; Gordon, 2004). Moreover, as recent work by Tervio (2008) has indicated, the money invested by large organizations in attracting celebrity CEOs has not paid off in market returns relative to less 'talented' ones.

The Relationship between Corporate Governance and HRM in Post-Merger Integration Processes

Two broad visions of CG co-exist: the shareholder and the stakeholder view. Tirole (2001) describes the essence of CG from a shareholder view as how to make sure that managers, who decide for the benefit of shareholders, internalize the external effects of their decisions in the welfare of shareholders. In the same layer, Shleifer and Vishny (1997) define it as the protection of the interests of shareholders as residual applicants and the mechanisms for this purpose. O'Donovan (2003), by disparity, describes CG from a stakeholder perspective as a system of structuring, operating and controlling a firm with a view to achieve long-term strategic goals to satisfy shareholders, employees, customers, creditors and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs.

Though long dominant in the literature, the shareholder view is increasingly on the retreat. While some scholars maintain that no major change is needed in its conception of CG (Holmstom & Kaplan, 2001), for many critics the need for change has become urgent following scandals in large public corporations, which went too far in their pursuit of share value maximization (Fumas, 2006). The focus of the firm, they argue, must shift towards more balanced objectives, corporate social responsibility and ethical behavior (Matten & Crane, 2005). Others see a more fundamental economic reason, the shift from physical capital to knowledge as the critical resource for wealth creation (Rajan & Zingales, 2000; Zingales, 2000). This corresponds with a shift from blue-collar to white-collar and from manufacturing and extractive to service sector activity in developed economies. Thus, the shareholder view was useful when the priority was to accumulate physical resources, but a positive, normative and instrumental analysis of the modern firm requires a theory adequate for the new reality (Fumas, 2006).

A key issue to firms engaged in these processes is to shape employees' identification and sense of involvement across national borders (Sparrow et al., 2004). To this end, partnership employee relations are being built and managerial skills profiled internationally, challenging some national education systems. This corresponds with the trends toward regional institutionalization and global formation of like-minded cadres discussed in the globalization literature (Rugman & Verbeke, 1998, 2005). However, most of the early international HRM literature saw a focus on expatriates (Ivancevich, 1969; Torbiorn, 1982; Mendenhall & Oddou, 1985), rather than on this key issue. Kochan et al. (1992), thus, criticize the field for its narrow preoccupation with the functional activities of HR managers and lack of appropriate theoretical structures, arguing that international HRM should be built around a broader set of issues. More recent works subscribe to this broader view, explicitly including employee relations (Tayeb, 2005). It is noteworthy; however, that few attempts have been made to apply insights from the expatriate literature to these broader issues. At least two applications would be thinkable in the realm of employee relations. Expatriates, usually in senior positions, spread the acquiring corporations' culture and management style in acquired companies. On the one hand, expatriate managers can, thus, practice and spread home-country ideas of employee involvement in CG. On the other, senior employee representatives can perform the same function among their acquired-company peers.

Meanwhile, the theoretical models developed explicitly to explain the broader issues in international HRM, can generally be divided into those that imagine convergence towards one set of assumed best practices and those that do not. The first approach assumes that there is a direct relationship between particular HR practices and firm performance (Becker et al., 1997), and one best way to organize labor (Williamson, 1985). It goes back to the first half of the 20th century when management theorists attempted to establish universal best practices of work organization across business systems (Taylor, 1911; Urwick, 1943; Mooney, 1947; Fayol, 1949). Thus, firms pursuing similar strategies are assumed to converge toward similar organizational structures (Chandler, 1962), and HRM practices flow from the need to accommodate those structures. More recent work has found that bundles of mutually supportive HRM practices are more effective than individual practices in isolation (Arthur, 1994; Pfeffer, 1994; Huselid, 1995). Despite solid empirical footing, their findings in what constitutes bundles of best practices vary significantly. Among the few common issues are employee empowerment and participative solutions (Youndt et al. 1996).

The second approach instead holds that any quest for one best way must be futile, since corporate strategy cannot be analyzed in isolation from the business environment (Dacin et al. 1999) and differences in the social context result in different HRM strategies (Doremus et al. 1999). Performance criteria, at any point in time, are socially rather than economically or technologically selected (Maurice et al. 1986). Thus, firms in different business systems are exposed to different social influences, which circumscribe the resources they can acquire and deploy. The primary determinant of success then becomes managing the social context of their resources and capabilities (Oliver, 1997). Hendry and Pettigrew (1992) argue that HRM processes cannot be explained solely through an internal focus on the resources of a firm, but are also driven by factors in the in the firm network and environment. Wright and McMahan (1992) further hold that strategic determinants of HRM practices co-exist with non-strategic determinants, which arise as a result of social pressures exerted on the organization from external as well as internal sources.

With Foss (1996), the present paper argues that the most appropriate strategy in HRM research is to acknowledge the importance of both, internal firm resources and external features of the business environment, thus, drawing on the nexus with CG. This notion has been affirmed by a number of important contributions to the field, which are reviewed in due course. Hendry and Pettigrew (1992) find that firms pursue different HRM policies to achieve the same results, as a number of linkages between the external environmental and the internal organizational context determine the content of HRM. Amit and Belcourt (1999) explain HRM processes as dynamic routines by which firms motivate, socialize and evaluate their staff, and which are transferred and institutionalized throughout an organization. Drawing on past experience, these processes are continuously refined so as to meet changing internal and external demands. Brewster (1995) shows how the HRM strategies of European-based firms are both, constrained and facilitated by formal and informal institutions in the area of employee relations. While criticizing the best-practice approach for its treatment of employees as an expense rather than the only resource capable of turning inanimate factors of production into wealth, they stress the centrality of employee involvement in creating a pro-active spirit of trust and collaboration. Following a thorough theoretical review of the nexus between CG and HRM, this paper undertakes the construction of an explanatory model, consistent with process-oriented approaches to management research (Pettigrew, 1990). Drawing on the important work by Hedlund (1986), the model seeks to explain how relationship management with the important stakeholder group of employees in post-merger integration (PMI) processes can be successful.

Recognizing that successful stakeholder management in PMI is strongly dependent on the management of knowledge flows and cognitive change (Vermeulen & Barkema, 2001), the model employs Martin and Salomon's (2003) concept of "knowledge transfer capacity". The concept is used to account for knowledge transfer through the HR practice of employee involvement in CG as well as for the transfer of the practice itself where it may not pre- exist.

Conclusion

CG requirements can often be satisfied when it comes to the letter of the law, but the spirit of the law is another matter altogether. Much has been said and written about cultural change of late. After the CG disasters of companies such as HIH and Enron, a strong correlation was found between a failure to embrace the spirit of CG and deep-seated organizational culture problems.

It is widely accepted that CEO and executive behavior, attitudes and values determine organizational culture – no matter how many mission or value statements HR plasters on the walls. If we mention cultural change to the leaders of such organizations, we will be met with blank stares, folded arms or rolling eyes. This resistance to change is probably the biggest gap in an organization's CG armor. CG is an issue that covers an entire organization, but without a supportive executive, HR will most likely be unimportant.

HR leaders need to 'step up to the plate' in thinking in governance terms and in understanding the links among the different forms of governance, especially if they are to become effective members of Boards. HR has a critical role to play in working on board development and performance management, and in helping develop more effective leadership branding in organizations.

Corporate strategy and its various elements such as mission and corporate values statements provide framework for employee actions including those supportive of CG. It enhances organizational performance to the extent that it reduces the uncertainty and ambiguity that are part of strategic decisions (Wilkins & Ouchi, 1983).

References

Amit, R., & Belcourt, M. (1999): Human Resource Management Processes: A Value-Creating Source of Competitive Advantage, European Management Journal, pp. 17, 174-181.

Applebaum, E. & Batt, R. (1994): The New American Workplace: Transforming Work Systems in the United States. Ithaca, NY: Cornel ILR Press.

Arthur, J. B. (1994): Effects of Human Resource Systems on Manufacturing Performance and Turnover, Academy of Management Journal, Volume 37, pp. 670-687.

Baird, L., & Meshoulam, I. (1988): Managing Two Fits of Strategic Human Resource Management. Academy of Management Review, Volume 13(1), pp. 116-128.

Barney, J. (1991): Firm Resources and Sustained Competitive Advantage, Journal of Management, pp.17, 99-120.

Beardwell, I., Holden, L., & Claydon, T. (2004): Human Resource Management a Contemporary Approach, 4th edition, Harlow: Prentice Hall.

Beatty, R. P., & Zajac, E. J. (1994): Managerial Incentives, Monitoring, and Risk Bearing: A Study of Executive Compensation, Volume 39, pp. 313-335.

Bebchuk, L. &Fried. J. (2003): Executive Compensation as an Agency Problem, Journal of Economic Perspectives, Volume 17(3), pp. 71-92.

Becker, B. E. & Gerhart, B. (1996): The Impact of Human Resource Management on Organizational Performance: Progress and Prospects. Academy of Management Journal, pp. 39, 779-801.

Becker, B. E., Huselid, M. A., Pickus, P. S., & Sprats, M. (1997): HR as a Source of Shareholder Value: Research and Recommendations. Human Resource Management, pp. 36, 39-47.

Bennett, R. J., Sharp, J. A., &Wang, J. C. (1998): Purification and Characterization of the Sgs1 DNA Helicase Activity of Saccharomyces Cerevisiae. J BiolChem, Volume 273(16), pp. 9644-50.

Berle, A., & Means, G. (1932): The Modern Corporation and Private Property, Transaction Publishers.

Blyton, P. & Turnbull, P. (eds) (1992): Reassessing Human Resource Management, London: Sage.

Brewster, C. (1995): Towards a European Model of Human Resource Management. Journal of International Business Studies, Volume 26(1), pp 1-21.

Buyens, D., & De Vos, A. (2001): Adding Value Through Integration and Involvement: A Qualitative Study About Management's Perception of the Added Value of the HR Function, Vlerick Working Paper Series 2001/2, pp.46.

Cappelli, P., & Singh, H. (1992): Integrating Strategic Human Resources and Strategic Management. In D. Lewin, O. S. Mitchell, & P. Sherer (Eds.), Research Frontiers in Industrial Relations and Human Resources, pp.165-192. Madison, WI: Industrial Relations Research Association.

Chandler, A.D. Jr. (1962): Strategy and Structure: Chapters in the History of the American Industrial Enterprise. Cambridge, MA: MIT Press.

Clarke, T. (ed.) (2004): Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance. London: Routledge.

Clarke, T. (2007): International Corporate Governance: A Comparative Approach. London: Routledge.

Coffee, J. (2004): What Caused Enron? A Capsule of Social and Economic History in the 1990s, in T. Clarke (ed.), Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance. London: Routledge, pp. 333 - 358.

Collis, D. J., & Cynthia A. M. (1998): Creating Corporate Advantage, Harvard Business Review 76, no. 3 (May–June), pp. 70–83.

Conant, J., Mokwa, M., &Varadarajan, R. (1990): Strategic Types, Distinctive Marketing Competencies and Organisational Performance: A

Multiple Measures Based Study, Strategic Management Journal 11 (No issue number), pp. 365-383.

Dacin, M.T., Ventresca, M.& Beal, B. (1999): The Embeddednessof Organizations: Dialogue and Directions, Journal of Management, pp. 25,317-5.

Davis, J.H., Schoorman, F.D., & Donaldson, L. (1997): Academy of Management Review, Volume 22, pp. 20-47.

Deephouse, D. L. (1996): Does Isomorphism Legitimate? Academy of Management Journal, 39, pp. 1024–1039.

Delery, J. E. & Doty, H. D. (1996): Modes of Theorizing in Strategic Human Resource Management, Tests of Universalistic, Contingency and Configurational Performance Predictions, Academy of Management Journal, Volume 39(4), pp. 802-35.

DiMaggio, P. J. & Powell, W. (1983): The Iron Cage Revisited, Institutional Isomorphism and Collective Rationality in Organizational Fields, American Sociological Review, pp. 48, 147-60.

Donaldson, L., & Davis, J. H. (1991): Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. Australian Journal of Management, Volume 16, pp. 49-65.

Doremus, P. N., Keller, W. W., Pauly, L. W., & Reich, S. (eds) (1999): The Myth of the Global Corporation, Princeton, NJ: Princeton University Press.

Dyer, L. & Kochan, T. (1995): Is There a New HRM? Contemporary Evidence and Future Directions, In B. Downie, P. Kumar, & M. L. Coates (Eds.) Managing HRM in the 1990s and Beyond. Is the Workforce Being Transformed? Kingston, ON: Industrial Relations Centre Press, Queens University.

Eisenhardt, M. K. (1989): Agency Theory: An Assessment and Review. Academy of Management Review, Volume14 (1), pp. 57-74.

Fama, E. F., & Michael, C. J. (1983): Agency Problems and Residual Claims, Journal of Law and Economics, Volume 26(2), pp. 327-349.

Fayol, H. (1949): General and Industrial Management. (trans. C Storrs). London: Pitman.

Ferguson, N. (2008): The Ascent of Money: A Financial History of the World, The Penguin Press HC. ISBN 978-1-59420-192-9.

Foss, N. J. (1996): More Critical Comments on Knowledge-Based Theories of the Firm, Organization Science, Volume 7(5), pp. 519–523.

Fumás, S. V. (2006): Economics of the Stakeholders' Firm (January), ECGI - Finance Working Paper No. 115.

Gooderham, P. N., Nordhaug, O., & Ringdal, K. (1999): Institutional and Rational Determinants of Organizational Practices: Human Resource Management in European Firms, Administrative Science Quarterly, Volume 44, pp. 507-531.

Gordon, J. N. (2004): What Enron Means in the Management and Control of the Modern Business Corporation: Some Initial Reflections, in T. Clarke (ed.), Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance. London: Routledge, pp. 322- 332.

Gospel, H., & Pendleton, A. (2003): Financial Markets, Corporate Governance and the Management of Labour: A Conceptual and Comparative Analysis. British Journal of Industrial Relations, Volume 41(3), pp. 557 - 582.

Gospel, H. & Pendelton, A. (eds.) (2005): Corporate Governance and Labor Management: An International Comparison. Oxford. Oxford University Press.

Guest, D.E. (1987): Human Resource Management and Industrial Relations, Journal of Management Studies, Volume 24(5), pp. 503–521.

Guest, D.E. (1997): Human Resource Management and Performance: A Review and Research Agenda, The International Journal of Human Resource Management, Volume 8, pp. 263- 276.

Guest, D., Michie, J., Sheehan, M., Conway, N.,&Metochi, M. (2000): Effective People Management, Initial Findings of the Future of Work Study. London, CIPD.

Hall, P. &Soskice, D. (2001): Introduction in Varieties of Capitalism. New York: Oxford University Press.

Handel, M. J., & Gittleman, M. (2004): Is There a Wage Payoff to Innovative Work Practices? Industrial Relations, Volume 43 (1), pp. 67.

Hedlund, G. (1986): The Hypermodern MNC – A Heterarchy? Human Resource Management, Volume 25 (1), pp. 9-35.

Hendry, C. & Pettigrew, A. M. (1992): Patterns of Strategic Change in the Development of Human Resource Management, British Journal of Management, Volume 3 (3), pp. 137-156.

Hollway, W. (1991): Work Psychology and Organizational Behaviour, Managing the Individual at Work. London: Sage.

Holmstom, B. & S. Kaplan, (2001): "Corporate Governance and Takeovers in the U.S.: Making Sense of the '80s and '90s," Journal of Economic Perspectives, Spring, pp. 121-144.

Huselid. M. A. (1995): The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance, Academy of Management Journal, Volume 38, pp. 635-72.

Huselid, M. A., Jackson, S. E., & Schuler, R. S. (1997): Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance, Academy of Management Journal, Volume 40, pp. 171-188.

Ichniowski, C., Kochan, T. A., Levine, D., Olson, C., & Strauss, G. (1996): What Works at Work: Overview and Assessment, IndRelat, Volume 35, pp. 299 - 333.

Ivancevich, J. M. (1969): Selection of American Managers for Overseas Assignment, Personnel Journal, March, Volume 48(3), pp. 180-93.

Kay, J. (2004): The Truth about Markets: Why Some Nations are Rich but Most Remain Poor. London: Penguin.

Khurana, R. (2002): Searching for a Corporate Savior, The Irrational Quest for Charismatic CEOs, Princeton: Princeton University Press.

Kochan, T., Batt, R. & Dyer, R. (1992): International human resource studies: a framework for future research, in Lewin, D., Mitchell, O. & Sherer, P. (Eds), Research Frontiers in Industrial Relations and

Human Resources, Industrial Relations Research Association, Madison, WI.

Konzelmann, S., Conway, N., Trenberth, L. & Wilkinson, F. (2006): Corporate Governance and Human Resource Management, British Journal of Industrial Relations, Volume 43, pp. 541-567.

Legge, K. (1995): HRM: Rhetorics and Realities, Basingstoke: Macmillan Business.

Lundy, O. (1994): From Personnel Management to Strategic Human Resource Management, International Journal of Human Resource Management, Volume 5 (3), pp. 687-720.

MacDuffie, J. P. (1995): Human Resource Bundles and Manufacturing Performance: Organizational Logic and Flexible Production Systems in the World Auto Industry, Industrial and Labor Relations, Volume 48(2), January, pp. 197-221.

Marchington, M. & Wilkinson, A. (2002): People Management and Development. London: CIPD.

Martell, K., & Carroll, J.S. (1995): Which Executive Human Resource Management Practices are Associated with Higher Firm Performance? Human Resource Management, Volume 34, pp. 497-512.

Martin, G. & Salomon, R. (2003): Knowledge Transfer Capacity and Its Implications for the Theory of the Multinational Corporation. J. Internat. Bus. Stud, Volume 34(4).

Martin, G & McGoldrick, J (2009): Theorizing the Link Between HRM, Governance and Corporate Reputations, (forthcoming).

Matten, D. & Crane, A. (2005): Corporate Citizenship: Toward an Extended Theoretical Conceptualization. Academy of Management Review, Volume 30(1), pp. 166 - 179.

Maurice, M., Sellier, F. & Silvestre, J. J. (1986): The Social Foundations of Industrial Power: A Comparison of France and Germany, Cambridge, MA: MIT Press.

Mendenhall, M.&Oddou, G. (1985): The Dimensions of Expatriate Acculturation: A Review, Academy of Management Review, January, Volume 10(1), pp. 39-47.

Mooney, J. O. (1947): The Principles of Organization, rev. ed. (New York: Harper & Row), pp. 62-72.

Moore, M., & Hartlet, J. (2008): Innovation in Governance, Public Management Review, Volume 10, pp. 3-20.

Mowday, R., Porter, L.,& Steers, R. (1982): Employee Organization Linkages: The Psychology of Commitment, Absenteeism, and Turnover, Academic Press, New York, NY.

O'Donovan, T. M. (2003): 'A changing Culture? Interrogating the Dynamics of Peer Affiliations Over the Course of a Sport Education Season, European Physical Education Review, Volume 9(3), pp. 237-251.

Oliver, C. (1991): 'Strategic Responses to Institutional Processes, Academy of Management Review, Volume 16, pp. 145–179.

Oliver, R. L. (1997): Satisfaction: A Behavioral Perspective on the Consumer, New York, NY: McGraw-Hill.

Peston, R. (2008): Who Runs Britain? How the Super-Rich are Changing Our Lives. London: Hodder & Stoughton.

Pettigrew, A. M. (1990): Longitudinal Field Research on Change: Theory and Practice. Organization Science, Volume 1(3), pp. 267-292.

Pfeffer, J. (1994): Competitive Advantage through People: Unleashing the Power of the Workforce, Harvard Business School Press, Boston.

Pfeffer, J. (1998): Seven Practices of Successful Organizations, California Management Review, Volume 40(2), pp. 96-124.

Raghuram G. R. & Zingales, L. (2000): The Great Reversals: The Politics of Financial Development in the 20th Century, OECD Economics Department Working Papers 265, OECD Publishing.

Ramsay, H., Scholarios, D., & Harley, B. (2000): Employees and High-Performance Work Systems: Testing Inside the Black Box, British Journal of Industrial Relations, Volume 38(4), pp. 501-531.

Roberts, J. (2004): The Modern Firm: Organizational Design for Performance and Growth. New York.

Rugman, A. M. &Verbeke, A. (1998): Corporate Strategies and Environmental Regulations: An Organizing Framework, Strategic Management Journal, Volume 19(4), pp. 363-75.

Rugman, A. M. &Verbeke, A. (2005): Towards a Theory of Regional Multinationals: A Transaction Cost Economics Approach, Working Papers 2005-04, Indiana University, Kelley School of Business, Department of Business Economics and Public Policy.

Sandra, E. B.& Lisa, M. L. (2001): How To Compete: The Impact Of Workplace Practices And Information Technology On Productivity, The Review of Economics and Statistics, MIT Press, August ,Volume 83(3), pp. 434-445.

Schuler, R. S., & Jackson, S. E. (1987): Linking Competitive Strategies with Human Resource Management, Academy of Management Executive, Volume 1, pp. 207-219.

Schuler, R. S. (1990): Repositioning the Human Resource Function: Transformation or Demise? Academy of Management Executive, Volume 4(3), pp. 49-60.

Schuler, R. S., Dowling, P. J., & DeCieri, H. (1993): An Integrative Framework of Strategic International Human Resource Management, International Journalof Human Resource Management, December, Volume 4, pp. 717- 764.

Shleifer, A., &Vishny, R. (1997): A Survey of Corporate Governance, Journal of Finance, Volume 52, pp. 737-783.

Snell, S. A., Youndt, M. A.,& Wright, P. M. (1996): Establishing a Framework for Research in Strategic Human Resource Management: Merging Resource Theory and Organizational Learning, in Ferris, G.R. (ed): Research in Personnel and Human Resources Management, Volume 14, JAI Press, Greenwich, CT, pp. 61-90.

Sparrow, P., Harris, H. & Brewster, C. (2004): Globalising Human Resource Management, Routledge, London.

Supangco, V. T. (2006): HR Involvement in Corporate Governance. Philippine Management Review 2006, Volume 13, pp. 101-116.

Tayeb, M. H. (2005): International Human Resource Management, A Multinational Company Perspective: Oxford University Press.

Taylor, F. W. (1911): The Principles of Scientific Management, New York, NY, USA and London, UK: Harper & Brothers, LCCN 11010339, OCLC 233134.

Tervio, M. (2008): The Differences that CEOs Make: An Assignment Model Approach, American Economic Review, Volume 98, pp. 642-668.

Tichy, N. M., Fombrun, C. J., & Devanna, M. A. (1982): Strategic Human Resource Management, Sloan Management Review, Volume 23, pp. 47-61.

Tirole, J. (2001): Corporate Governance, Econometrica, Volume 69(1), pp. 1- 35.

Torbiorn, I. (1982): Living Abroad: Personal Adjustment and Personnel Policy in the Overseas Setting, New York: Wiley.

Truss, C. & Gratton, L. (1994): Strategic Human Resource Management: A Conceptual Approach, International Journal of Human Resource Management, Volume 5 (3), pp. 663-686.

Truss, C. (2001): Complexities and Controversies in Linking HRM with Organizational Outcomes, Journal of Management Studies, Volume 38(8), pp. 1121-1149.

Urwick, L. (1943): Administration in Theory and Practice, British Management Review, Volume 8, pp. 37-59.

Vermeulen, G. A. M. & Barkema, H. G. (2001): Learning through Acquisitions, Academy of Management Journal, Volume 44 (3), pp. 457-476.

Walton, R. E. (1985): From Control to Commitment in the Workplace, Harvard Business Review March-April, pp. 77-84.

Wilkins, A., &Ouchi, W. G. (1983): Efficient Cultures: Exploring the Relationship Between Culture and Organizational Performance, Admin. Sci. Q. Volume 28, pp. 468-481.

Williamson, O. (1985): The Economic Institutions of Capitalism. New York: Free Press.

Wright, P.M.,& McMahan, G. C. (1992): Theoretical Perspectives for Strategic Human Resource Management. Journal of Management, Volume 18 (2), pp. 295 - 320.

Wright, P. M., McMahan, G. C., McCormick, B., & Sherman, S. C. W. (1998): Strategy, Core Competence, and Human Resource Involvement as Determinants of HR Effectiveness and Refinery Performance, Human Resource Management, Volume 36, pp. 17- 29.

Wright, P. M. & Boswell, W. R. (2002): Desegregating HRM: A Review and Synthesis of Micro and Macro Human Resource Management Research (CAHRS Working Paper #02-11). Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies.

Youndt, M.A., Snell, S.A., Dean, Jr. J. W. & Lepak, D. P. (1996): Human Resource Management, Manufacturing Strategy, and Firm Performance, Academy of Management Review, Volume 39(4), pp. 836-866.

Zajac, E. J. & Westphal, J. D. (1994): The Costs and Benefits of Managerial Incentives and Monitoring in the Largest U.S. Corporations: When is More not Better? Strategic Management Journal, Volume15, pp. 121-142.

Zingales, L. (2000): In search of new foundations. Journal of Finance. Volume 55(4), 1621-1653.