

Links between Human Resource Flexibility, Environmental Dynamism, And Firm Performance: An empirical study of firms in India

A b s t r a c t

Sumita Ketkar
Indian Institute of Management Calcutta, 2007

Thesis Supervisor: Prof. P K Sett

It is well recognised that a firm can proactively exploit uncertainties in its environment rather than just absorb it, if it possesses resources that are amenable to multiple uses, and it can reconfigure and redeploy such resources quickly and at low cost to meet the new demands of the changing environment. Therefore, environmental dynamism, resource flexibility, and firm performance are causally interdependent.

This dissertation makes an empirical investigation into the above linkage in the context of flexibility of human resources (HR). Three main research issues that were addressed based on a review of the extant literature were: 1) understanding and refinement of the construct of HR flexibility; 2) deciphering the causal chain through which HR systems of a firm first brings about desired human outcomes which, in turn, get translated into operational and financial results; and 3) how far the relationship between firm performance and environmental dynamism is contingent upon flexibility of human resources possessed by the firm.

A questionnaire based field survey was carried out involving a sample of 201 firms that were representatives of a wide variety of industries facing different degrees of environmental turbulence.

Exploratory and confirmatory factor analyses were used to establish the validity and the reliability of the measurement scales relating to HR flexibility, environmental dynamism, and firm performance. For testing the hypotheses on

the effects of HR flexibility and environmental dynamism methods used were: hierarchical multiple regression, path analysis, and structural equation modelling. The latter two model-fitting techniques were used to identify best-fit causal models for the hypothesised relationships among the variables of interest.

The results led to some important findings on the research questions posed. First, as a construct, HR flexibility was found to contain a new dimension, namely, flexibility inducing HR practices, which was distinct from its three already identified components involving flexibilities of skill, behaviour, and HR practices.

Second, the impact of HR flexibility on firm performance was found to be strongest on firm level human outcomes and its impacts on operational and financial outcomes were progressively less.

Third, HR flexibility was found to be mediating (rather than moderating) the relationship between environmental dynamism and firm performance. Among the firms facing the same degree of environmental turbulence, those possessing higher degree of HR flexibility performed better than those who possessed less.

