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Determinants of top management's capability to identify core employees

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Abstract Despite the increasing academic interest, the human resource management formulation process still remains unclear. Building on human capital and talent management literatures, this study investigates how top management teams identify critical human resources. The proposed model explores how top management teams' ability to identify core employees is conditioned by two human capital attributes of their members (cognitive skills and value orientation). The empirical analysis developed confirms the influence of human capital. Nevertheless, results only provide partial support to our hypotheses, showing that the identification of critical human resources is more complex than theoretically assumed. The estimation of the proposed model shows that, to efficiently develop this process, top management teams require the combination of rational and creative skills, as well as a collectivistic orientation. The implications of this conclusion for both academics and practitioners are discussed in the paper, as well as the limitations of the study.

Introduction

Extant SHRM literature does not offer clear conclusions regarding how HRM influences firm performance (Lengnick-Hall et al., 2009; Guest, 2011). To move forward, a new perspective is required: a process focus instead of the traditional SHRM content perspective (Monks et al., 2013).

This approach allows study of internal dynamics by which HRM strategies are defined and subsequently implemented. Accordingly, HRM formulation can be defined as a strategic process, consisting of different phases developed by top management teams. Wright et al. (2004) described this process, which starts with generic strategic stages (*environmental scanning* and *strategic issue interpretation*) and finishes with HRM-specific activities (*critical human resources identification*, *definition of the strategic HRM orientation*, and *HRM communication*). As it can be observed, the identification of critical human resources plays a central role in the process, connecting strategic analysis with HRM decisions. In fact, as Clardy (2008a,b) argued, this

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analysis is required to assess the viability of projected business strategies, as it allows to evaluate to what extent the human capital available in the firm cope with the required strategic capabilities. Critical HR identification has been described by Cooke et al. (2013) as the first step in the talent management process. Different authors have even considered it as one of the most relevant challenges that modern HRM should address (Collings and Mellahi, 2009; Strack et al., 2010). Because of the complexities of the process and the difficulties found in the identification and evaluation of core competencies, top managers do not always achieve expected results (Chen and Chang, 2010). As McDonnell et al. (2010) explained, this effect can be particularly harmful for the organization, as it can make managers fail to understand where the talent resides within their organizations, and where they can find the human capital required to implement designed business strategies.

Previous literature has identified a number of factors that affect the development of the different stages of the strategic formulation process. Among them, empirical studies have emphasized the relevance of human capital attributes. As Hambrick and Mason (1984) explained, strategic decision-making processes are a reflection of managers' values and cognitive bases (Hambrick and Mason, 1984). Following Joyce and Slocum (2012) we assume that the identification of critical human resources needs to be developed at the top management team, which is the unit responsible for creating and sustaining strategic human capital. Therefore, its composition, in terms of human capital attributes will have a relevant influence, determining team's ability to identify core employees. Deepening this effect, the paper contributes to the literature in three different ways. Firstly, exploring the conditions under which top management teams are more capable to identify strategic human capital. To do so, and drawing on Hambrick and Mason (1984), we assume that top management team's capability to identify core employees will be determined by two characteristics of their members: cognitive schemas and value structures. The first element will allow us to examine how the process is conditioned by top management teams' capabilities to process, interpret, and elaborate information (Hodgkinson, 2003). On the other hand, by analyzing values, we will examine how the process is affected by managers' patterns of beliefs and relational values. As an analytical and decision-making activity, the identification of core employees will also be affected by the way managers relate and communicate each other (Ramamoorthy and Flood, 2004). A second contribution of the paper lies in the analysis of the HR strategy formulation process. In this sense, critical HR identification is presented as one of the stages of a broader process, in which different decisions and actions are developed. Finally, the proposed research will also contribute to previous literature by providing an alternative explanation of the HRM-performance relationship, adopting a process perspective instead of the traditional content focus.

To conduct the analysis, the paper will be organized as follows. First, we review extant literature on SHRM, to explain the role of the critical human resource identification in the HRM context. In the second section of the paper, we focus on TMT human capital composition, analyzing cognitive abilities and team values. Finally, we propose a model, which is empirically tested applying Partial Least Squares (PLS) modeling. Conclusions and limitations of the study, as well as the future research lines derived from our discussion are presented in the last section of the paper.

Literature review

Critical human resources identification during HRM strategy formulation

Considering previous arguments, we can define critical human resources identification as one of the steps of HRM formulation process. As Joyce and Slocum (2012) have explained, this activity needs to be developed on the basis of the information gathered in previous stages of the process, in which top managers evaluate the strategic issues that need to be responded, and the organizational capabilities required to do so. Because of its importance, critical HR identification should not be erratic, but a structured and formalized process (Collings and Mellahi, 2009; Nijs et al., 2013). In this line, some studies suggest that formalized processes encourage efficient internal analyses (Apospori et al., 2008), allowing top managers to better identify the required human capital (Doving and Nordhaug, 2010). Thus considered, critical HR identification can be defined as a systematic process whose main purpose focuses on detecting high potential and/or high performing employees in a specific organization. As Iles et al. (2010) state, this assessment cannot be abstractly developed. It must respond to the strategic needs of the organization and help to support its strategic capabilities.

Once the object of analysis (i.e., core employees) is clarified, we specify the process and criteria through which managers assess and evaluate the skills, abilities, and knowledge that those employees offer to an organization (strategic human capital). As it has been defined, the analysis of critical human resources starts from the premise that not all employees possess the same potential to develop core organizational activities, and some perform support actions that do not add strategic value to a firm. Lepak and Snell's (2002) HR architecture model summarize the criteria to evaluate individuals' strategic potential in two categories –strategic value and uniqueness-, which help to evaluate how employees contribute to the creation of sustainable competitive advantages. Regarding the first attribute (value), the authors argue employees contribute to organizational core competencies when they improve efficiency and effectiveness, explore new opportunities, and mitigate threats (Lepak and Snell, 2002, p. 532). The strategic value of core employees can be identified by assessing three criteria: (1) their contributions to cost reductions, (2) improvement of customer satisfaction, and (3) quality (López-Cabrales et al., 2006). Moreover, unique workers possess idiosyncratic human capital and they are especially difficult to replace because of the singularity of their competences and its fit with organizational structure. Therefore, human capital uniqueness can be assessed by examining two aspects: (1) the degree to which employees are irreplaceable and, (2) the extent to which their abilities cannot be duplicated (López-Cabrales et al., 2006). Following Lepak and Snell (2002) we can conclude that employees