

High-value human resource management practices and organisational performance: An exploratory study

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ABSTRACT

This paper investigates the relative importance and effectiveness of “high value” human resource management (HRM) practices used by Australian listed companies. The preliminary findings indicate that the most effective high-value HRM practices involved those dealing with internal promotion on the basis of merit, employee participation in decisions and information sharing, a cooperative and trustful climate, extensiveness in the employee selection process, opportunity and variety in employee training, and individual compensation schemes. This appears to fit with current HRM thinking which emphasises merit-based schemes, and employee participation in decision-making within the context of HRM leadership that emphasises values directed toward development of others rather than self-serving management and stakeholder objectives.

The study also found that employee appraisal systems and training were correlated with both return on investment and lower turnover, whereas communication and long-term focus, and equity and fairness in selection and promotion were correlated with lower turnover.

The results suggest that businesses which emphasise these high-value HRM practices are more likely to improve organisational performance. This may have implications for transformational leadership approaches to HRM that endeavour to improve performance through creating a culture that is conducive to spiritual growth based on appropriate individual and collective “corporate family” values, attitudes and beliefs.

Introduction

In its broadest sense, the field of human resources management (HRM) has had until recently two prevailing HR philosophies. The first of these is that efficiency and effectiveness in the recruitment, selection and management of human resources will have positive performance outcomes and lowered production costs. In other words, investment in the human capital of an organisation would be rewarded with a return on investment that would boost overall organisational outcomes. This HR philosophy was a logical extension of the personnel management/public administration utility view of the HR processes and functions (Pfeffer 1998). The second HR philosophy to emerge in the 1980s was the strategic HRM (SHRM) approach or model in which the HRM systems and processes were tasked with supporting organisational strategies through the creation of inimitability of HR (Becker and Huselid 1998). This inimitability of the organisation’s HR created competitive advantages that the organisation could exploit for profitable gain.

While both of these HR philosophies have wide acceptance in organisations today, a third HR philosophical perspective is emerging that shifts the focus away from individual HR practices, programs and processes and focuses on the HR function as a holistic value based system with emphasis on spirituality and its consequential impact on the organisation’s success in terms of healthier interpersonal relationships (Anderson, 1997; Pruzan, 1998; Kriger and Hanson, 1999; Waddock, 1999; Butts, 1999; Wagner-Marsh and Conley, 1999; Russell, 2001; Tischler, Biberman, and McKeage, 2002; Krishnakumar and Neck, 2002) as well as improvements in financial performance (Huselid 1995; Huselid & Becker 1996, 1997; Becker & Huselid 1998; Becker & Gerhart 1996; Pfeffer 1998). Various called ‘high commitment work practices’ (Pfeffer 1998), ‘high performance work systems’ (Becker & Huselid 1998), and high value performance systems, this new perspective accepts the value of, and builds upon, the empirical foundations of the other two HRM philosophies (Becker & Huselid 1998), while arguing that methodological issues in measuring the contribution of HRM to organisational performance can be addressed by examining the impact of the HRM system as a single index (Huselid, 1995; Guthrie, 2001). Further, within this single HRM index, the mix of various HR processes, practices and functions may vary and can have different impacts but with similar outcomes for personal/ organisational relationships (Milliman,

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Ferguson, Trickett, and Condemi, 1999; Tischler, 1999; Kriger and Hanson, 1999; Waddock, 1999; Russell, 2001) and overall performance outcomes (Becker and Huselid, 1998; Kriger and Hanson, 1999; Waddock, 1999; Tischler, Biberman, and McKeage, 2002; Krishnakumar and Neck, 2002).

Comparisons of firms employing high-value work practices in American studies have revealed some impressive results. Pfeffer (1998) undertook a review of studies of long-term survival of Initial Public Offerings (IPO's). While quick to point out that effectively managing the firm's HR is not the sole basis for competitive success, he found that substantial gains in excess of 40 percent in corporate profitability and market capitalisation values could be obtained by implementing high-value work practices. These gains are measured in terms of profits, quality and productivity outcomes and result from management practices that support employee involvement and increase motivation, responsibility and commitment. Huselid (1995), in a study of senior HR professionals (n=968) across all industries, constructed two scales, *employee skills and organisational structures and employee motivation* which measured management practices that fostered application of employee skills as well as recognition and reinforcement of desired employee behaviours. Using these two scales of management practices, Huselid found that:

The magnitude of the returns on investment in High Performance Work Practices is substantial. A one standard deviation increase in such practices is associated with a relative 7.05 decrease in turnover and on a per employee basis, \$27,044 more in sales and \$18,641 and \$3,814 more in market value and profits, respectively. (1995, p. 667)

Using a case study approach to the spiritual values-based model employed by Southwest Airlines, Milliman et al. (1999) found that:

A major reason for SWA's longer-term success is its HRM practices which are carefully designed to provide '...the conditions that energise and inspire people...' (Stewart, 1998) and to implement the company's core values and strategy (Noe, Hollenbeck, Gerard and Wright, 1997) ...SWA places the highest importance in its selection process on employee attitudes and values, rather than technical abilities...SWA asks a lot of its employees and in return provides them with a wide range of financial and non-financial rewards. These rewards are consistent with the literature that states spiritual-oriented organisations give much back to their employees, including respect, growth (Rosen, 1992) and intrinsic value through their work as well as extrinsic rewards such as ownership and security (Brown, 1992; Molner, 1992)...SWA's core values and its implementation of those values through its various HRM practices appear to generate strong employee, customer, and firm results. (1999, pp.225-226).

Other studies employing this measurement of a values-based one-dimensional HR system concept to explain organisational performance (Arthur 1994; Becker & Gerhart 1996; Delery & Doty 1996; Welbourne & Andrews 1996; Huselid & Becker 1996, 1997; Ichniowski, Shaw & Prensushi 1997; Guthrie, 2001) report similar conclusions regarding high-value HR management practices which collectively support the opportunity for employees to engage their skills and competencies, afford significant autonomy and responsibility and reinforce those aspects of the work life that stimulate and enhance employee motivation.

High Values and Servant Leadership

The literature on servant leadership specifies a number of 'high values' that are perceived to be critical for the long-term success of an organisation. According to Russell (2001) these include vision, credibility, trust, service, modelling, pioneering, appreciation of others, and empowerment. Although all of these values are important for sustained long-term success, this study will focus on the values of trust, appreciation of others, and empowerment, as these attributes are more easily operationalised in the context of HRM practices.

Trust is considered an essential ingredient in servant leadership (see Covey, 1990; De Pree, 1997; Fairholm, 1998; Melrose, 1997; Neuschel, 1998; Wilkes, 1998; Russell, 2001), and helps to establish leader credibility and foster collaboration (Kouzes and Posner, 1993), and provides a foundation for employees to follow their leaders with confidence and enthusiasm (Russell, 2001). Appreciation of others reflects the spiritual value systems of servant leaders in terms of esteeming, respecting and honouring the people served by servant leaders (Russell, 2001). Showing concern for others through encouragement, listening and caring attitudes demonstrates empathy and elicits trust (Kouzes and Posner, 1993). Empowering others is similarly an important principle in true servant leadership, and involves entrusting employees with authority and responsibility (Costigan, Ilter and Berman, 1998), promoting teamwork, and reflecting the values of love and equality by structuring work environments so

that employees feel more effective and motivated (Russell, 2001).

Development of Research Questions

While the emerging high-performance work systems HR philosophy shows great promise of making the difficult methodological connections between HR practices and organisational performance outcomes, there is still a need to deconstruct the high-involvement HR system, examine it and reconstruct it in order to identify those HR practices, policies and processes that contribute significantly and those which may detract or act negatively relative to the overall outcomes for the organisation. This is particularly true for Australian organisations given that they are embedded in cultural systems that are different to those of the United States firms that were the focus of previous research in this area. Furthermore, the impact of HR practices, processes, policies and philosophies is likely to have different facets in the local culture than it does in other cultures, given that HRM tends to institutionalise the unique cultural, social, legal and economic features of the community in which it is embedded (Moore & Jennings 1995). As such, it is of concern to both Australian HRM academics and senior HRM practitioners to find a clear picture of what HR processes would be included in a high-value HRM system, particularly when this system can produce substantial gains in productivity, performance and return on investment. This forms the basis of the first research question addressed in this study.

Research question 1 – *What are the top ten high-value HRM practices in terms of perceived effectiveness by HRM directors?*

The authors of this paper took the view that for any HRM system to have valued firm-level outcomes, it must include high-quality technical and or strategic HRM practices and processes that actively involve the employees in the attainment of organisational objectives (Huselid, Jackson & Schuler, 1997). As such, the choice seemed logical to describe those HRM systems that fostered high employee involvement as *high-value HRM practices*. As outlined earlier these HRM practices were identified as those which are consistent with the servant leadership values of trust, appreciation of others, and empowerment.

The precedent for this approach was established by Guthrie (2001) in his recent study of the relationship with turnover and productivity in New Zealand firms. Indeed, Guthrie (2001) makes the point that high-value work practices are more likely to be found where the active involvement of the employee is pivotal to the organisation's success, suggesting the second research question to be addressed in this study.

Research question 2 – *Are high-value HRM practices positively associated with organisational performance?*

Method

Measurement of High-Value HRM practices

Following a review of the different high-value HRM practices examined in prior research, Huselid's (1995) framework was used as a basis for this research. However, to provide a more comprehensive picture of overall high-value HRM practices, the list of items was expanded to include additional contemporary practices relating to staff training, participation in decision making teams and communication of major decisions, job security, job design, focus on long term employee potential, selection processes and employee skills, and an organisational climate that encourages confidence, trust and cooperation. The additional items were derived from studies such as Arthurs (1994), Delery and Doty (1996), and Pfeffer (1998). Some modifications were made in the survey instrument used by Huselid (1995) but the scales used for the HRM approaches were the same, measuring effectiveness for each of the items on a five point likert scale ranging from highly ineffective to highly effective. The single HRM practices were then rank-ordered to facilitate analysis relating to the first research question – the relative perceived importance of high-value HRM practices.

In exploring the second research question relating to the association of high-value HRM practices with performance, as the number of items was excessive, factor analysis with varimax rotation was used to reduce the list of high-value HRM practices to six underlying factors:

1. Employee appraisal systems and training
2. Job design and employee trust in the organisation
3. Communication and long term focus
4. Skills and compensation scheme
5. Equity and fairness in selection and promotion
6. Cooperative and trustful organisational climate.

Each of the above factors had an eigenvalue in excess of 1.5, and consisted of items that loaded at greater than 0.55 on the factor. (Comrey and Lee, 1992 suggest that loadings in excess of 0.55 can be classified as good.) The factors collectively explain 70% of the total variance.[1]

Measurement of Organisational Performance

Consistent with Huselid (1995), three measures of organisational performance were used – return on investment (ROI), productivity and employee voluntary turnover. Return on investment was estimated by dividing Net Profit after tax by Paid up Share Capital. Productivity was estimated by dividing gross revenue by number of full time employees. The data required to calculate both ROI and productivity was obtained from the sample firms' public annual report data. The figures for voluntary turnover were obtained directly from the questionnaire which required respondents to estimate their average annual rate of turnover. This is consistent with the approach taken by Huselid (1995) and Guthrie (2001).

Depending on the nature of the variable, nominal and interval scales were used to measure each. For example, use and effectiveness of high-value HRM practices were measured in interval scale whereas level of management was measured in nominal scale.

The sample (sample size of approximately 200) was selected from companies listed on the Australian Stock Exchange using Jobson's database. The survey was addressed to the Director of Human Resources of the company as it was considered that this individual would have a good knowledge of the firm's human resource management practices. A follow up was carried out to improve the response rate of the survey.

To check the sample representativeness, early respondents were compared with the late respondents (2-tailed t test) in some of the key attributes. No significant differences were noted in these attributes between the early and late respondents. Similarly, a Chi-square test was carried out to see whether there was a difference in the proportion of early and late respondents in terms of firm size, industry category and the type of quality management program used. The analysis revealed no significant difference in these attributes between the early and late respondents. These results suggest that respondents are representative of the population. The first twenty questionnaires that were received without any follow-up were considered as early respondents and the remaining ten as late respondents.

Results

Thirty responses were received with a response rate of 15%. Sixty-eight percent of the questionnaires were completed by the director of human resources, while 4% were completed by the training manager, and the remainder were completed by either the CEO or top management. Of the total respondents, sixty-four percent were male and thirty-six percent were female. Type of industry included retail (8%), service (20%), manufacturing (36%), and other (36%) including property development, financial services, IT development, Publishing, Research and Development, and Human Resource Development. The age of the company ranged from one year to more than fifty years, with an average of fifteen years. The number of full time employees ranged between seven and two thousand five hundred with an average of four hundred and five. The voluntary turnover rate ranges between one percent and one hundred percent with a median value of ten percent. In response to separate questions on the number of qualified applicants per position and hours of training received by employees in the last year, the median responses were six and thirteen respectively.

The answers to the research questions are presented below.

Research question 1 — *What are the top ten high-value HRM practices in terms of perceived effectiveness by HRM directors?*

High-value HRM practices

High Value HRM Practice	Mean	Std. Deviation
Merit basis for promotion	4.18	0.66
Employee participation in employee-management /decision making teams	4.18	0.64
Employee inclusion in a formal information sharing program	4.00	0.76
Selection for promotion from within	3.96	0.87
Cooperative and trustful climate	3.88	0.82
Variety in employee training	3.83	0.62
Individual compensation schemes	3.82	0.91
Sufficient opportunity for employee training	3.81	1.05
Employee participation in quality of work-life programs or quality circles	3.80	1.13
Extensiveness and selectivity in employee selection process	3.76	0.78

Table 1 – Top Ten High-Value HRM Practices

Table 1 indicates that the most effective high-value HRM practices involved those dealing with internal promotion on the basis of merit, employee participation in decisions and information sharing, a cooperative and trustful climate, selection of employees with specific skills and extensiveness in the employee selection process, individual compensation schemes and formal job analysis. This is not surprising in the context of current HRM thinking which emphasises merit based schemes, and encourages (some would say empowers) employees to participate in decision making and information sharing at all levels within an organisational environment that encourages cooperation and trust.

Research question 2 – Are High-Value HRM practices positively associated with organisational performance?

As there were three measures of organisational performance – return on investment, productivity and voluntary turnover, a Multivariate Analysis of Variance statistical technique was employed. The six high-value HRM practice factors were treated as the independent variables, and the three organisational performance variables were treated as the dependent variables. The results of this analysis are given in table 2.

Effect	F	Hyp. df	Significance
Employee appraisal systems and training	3.000	.001	35.480
Job design and employee trust in the organisation	3.000	.944	0.124
Communication and long term focus	3.000	.026	4.591
Skills and compensation schemes	3.000	.689	0.501
Equity and fairness in selection and promotion	3.000	.083	2.906
Cooperative and trustful organisational climate	3.000	.381	1.124

Table 2 - Manova Test of Effect of HRM Factors on Organisational Performance

Source	Dependent Variable	F	Sig.
Corrected Model	Return on investment	2.393	.088
	Productivity	0.525	.780
	Voluntary turnover	21.434	.001
Employee appraisal systems and training	Return on investment	4.132	.063
	Productivity	1.217	.290
	Voluntary turnover	108.769	.001
Communication and long term focus	Return on investment	0.290	.599
	Productivity	0.161	.694
	Voluntary turnover	11.981	.004
Equity and fairness in selection & promotion	Return on investment	3.138	.100
	Productivity	0.735	.407
	Voluntary turnover	5.556	.035

Table 3 - HRM Factors & Organisational Performance: Tests of Between-Subjects Effects

As shown in Table 2 three of the six high-value HRM factors show a significant association with firm performance – employee appraisal systems and training ($p=.001$), communication and long-term focus ($p=.026$), and equity and fairness in selection and promotion ($p=.083$) -the latter only weakly significant.

Table 3 reveals that the effect of the above HRM factors was highly significant for voluntary turnover ($p=.001$), weakly significant for return on investment ($p=.088$), but totally insignificant for productivity ($p=.780$). In relation to the first factor, it would appear HRM managers' perceptions of the effectiveness of employee appraisal systems and training are highly negatively correlated with voluntary turnover ($p=.001$), and weakly positively correlated with return on investment ($p=.063$). This would indicate the importance of effective appraisal systems and quantity and quality of training in improving financial performance as well as reducing turnover. In relation to the second factor, it would appear HRM managers' perceptions of the effectiveness of communication of HRM decisions and recognition of long term employee potential are highly correlated with lower voluntary turnover ($p=.004$). This would appear to make intuitive sense as employees are less likely to leave an organisation in situations where long term potential is highly valued. In relation to the third factor, it would appear HRM managers' perceptions of the effectiveness of equity and fairness in selection and promotion are significantly correlated with lower voluntary turnover ($p=.035$). This may indicate that employees are reluctant to leave an organisation that treats its employees equitably and fairly in terms of employment selection and promotion policies.

Conclusions

The most effective high-value HRM practices included those dealing with internal promotion on the basis of merit, employee participation in decisions and information sharing, a cooperative and trustful climate, selection of employees with specific skills and extensiveness in the employee selection process, individual compensation schemes and formal job analysis. This would suggest that HRM managers currently place a very high priority on transparency of promotional criteria and the fostering of an organisational culture that encourages cooperation and trust. Furthermore this accords with previous research on the effectiveness of high-value HRM practices which claims that 'trust increases the ability to commit to and engage in long-term effectiveness in organisational transactions' (Kriger and Hanson, 1999, p.305); and that the key elements of successful servant leadership include trust and cooperation as a means of enabling empowerment and appreciation of others (Russell, 2001). Trust can also lead to better performance through accelerated decision-making, better communication, greater innovation, and sharper focus on customer issues (Kriger and Hanson, 1999). In contrast, distrust can lead to unclear performances targets, disruption of processes and relationships, communication problems inside the organisation, and lack of cooperation between employees and management (Burack, 1999; Krishnakumar and Neck, 2002).

The fact that both executive and operational level HRM practices were positively correlated with measures of organisational performance suggests that a holistic approach may contribute to greater organisational effectiveness. This was corroborated in part by the correlation of diverse factors with both objective and subjective measures of organisational performance. These factors included employee appraisal systems and training, communication and long term focus, and equity and fairness in selection and promotion which were positively correlated with the subjective measure of lower employee turnover, while employee appraisal systems and training, and equity and fairness in selection and promotion were also weakly positively correlated with the objective measure of return on investment.

An interesting phenomenon may be observed from considering the results from the two research questions together. Whereas HRM directors rated practices relating to merit based promotion, employee participation in decisions and information sharing within a cooperative and trustful climate as the most effective high-value HRM practices, these were not necessarily the same practices that loaded on the factors that were correlated with organisational performance. Recall that these 'high performance' factors were employee appraisal systems and training, communication and long-term focus, and equity and fairness in selection and promotion. Though employee appraisal systems and training is the first and primary high-value HRM factor associated with both return on investment and lower turnover, it would seem HRM directors do not perceive appraisal systems and training as the most highly effective HRM practices. This may indicate that an awareness of the importance of formal appraisal systems and appropriate focus on training activities would facilitate even greater levels of organisational performance.

Limitations and Suggestions for Further Research

This study investigated the association between perceived effectiveness of high-value HRM Practices and Organisational Performance for a sample of Australian listed companies. The findings show that effectiveness in HRM practices involving employee appraisal systems and training, communication and long-term focus, and equity and fairness in selection and promotion may contribute to organisational performance. However, it must be acknowledged that this was only a pilot study in the first phase of a larger study on Australian listed corporations and thus the small sample of firms could not be regarded as representative of all Australian businesses. This would certainly limit the generalisability of these results to a wider population of businesses. Therefore further research is called for to ascertain whether the same practices are evident within a broader sampling frame. This is planned as the next phase of this study.

This study was also restricted to particular types of high-value HRM practices predominantly consistent with those advocated by Huselid (1995), but also with those proposed by other researchers such as Arthurs (1994), Delery and Doty (1996), and Pfeffer (1998). Future research may investigate the perceived importance of other types of high-value HRM practices. An exploratory factor analysis was also undertaken to investigate whether any combinations of these practices were correlated with organisational performance. Future research may extend this study by considering the importance and effectiveness of total integrated *systems* of high-value HRM practices to further investigate our preliminary proposition that a holistic approach to HRM leads to improvements in organisational effectiveness.

Furthermore, in the current study organisational performance was operationalised by the objective measures of return on investment and objective productivity as measured by operating revenue per employee; and the subjective measure of turnover in terms of respondents' self-assessments of the average annual rate of employee turnover. Further research may investigate alternative subjective measures of organisational performance such as different benchmarking standards of comparative performance, and different alternative objective measures such as profit margins and market share.

Finally, this study found that the high-value practices involving trust and cooperation were most likely to affect organisational performance. This finding may have implications for aspects of transformational (and servant) leadership practices which place an emphasis on 'corporate family' values, attitudes and beliefs. Further research may indicate that other corporate family values, attitudes and beliefs which have been espoused in the literature as leading to greater organisational effectiveness, will be linked to organisational effectiveness. For the purposes of this study it was only possible to focus on a few of these corporate family attributes, viz, trust, appreciation of others, and empowerment, as suggested by Russell (2001). Further research may investigate a number of other attributes that have been previously identified as including higher purpose, vision, credibility, truth, honesty, humility, forgiveness, compassion, thankfulness, freedom, justice, peace, and commitment to employees, quality and service (see Kriger and Hanson, 1999; Butts, 1999; Wagner-Marsh and Conley, 1999; Russell, 2001).

However, as acknowledged by Kriger and Hanson (1999), these attributes are insufficient without the supportive practices that bring them to life and support them in the workplace. Such supportive practices include behaviour that is consistent with corporate family attributes, creation of a climate where morality and ethics are truly valued, legitimising differing viewpoints, values and beliefs, developing imagination, inspiration and mindfulness, letting go of expectations, acknowledging others' contributions, and creating organisational processes that develop the whole person (Kriger and Hanson, 1999). Furthermore, the realisation of organisational success in the long-term will only be possible through true servant leadership (Bass, 1990, p.21; Bierly, Kessler, and Christensen, 2000), which elevates the interests of employees, and generates awareness and acceptance of a sense of higher purpose in the workplace.

[1] *Alpha reliability coefficients were computed for each of the HRM factors, and for five out of the six factors, Cronbach's alpha was between 0.79 and 0.93. This range is considered to be acceptable as Hitt, Ireland and Palia (1982) had alpha values between 0.66 and 0.88. Based on these considerations, strong evidence of reliability is noted in the constructs of five HRM factors. For cooperative and trustful climate, however, the alpha value was 0.56 which is on the lower side.*

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