The Effect of Slack Resources on the Relationship Between Human Resource Management and Differences in Strategic Focus

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Abstract
To effectively respond to the demands of a changing market, a firm must constantly provide better products and services that are recognized as having better quality and/or being innovative. Notably, various studies have shown that better human resource management is a foundation to providing improved products and services. Regarding a firm’s strategic and operational focus on quality, innovation, or both, many studies have argued that a different type of resource is required for the improvement of quality and/or innovation of products and services. Such resources can be classified as exploratory resources to create a new product/service and exploitative resources to redefine and deepen current offerings. To establish ambidexterity within a firm, some firms may emphasize a balance between exploratory and exploitative resources.

Although the understanding of slack resources is quite important, studies on the effects of slack resources to provide flexibility of firm’s strategic and operational execution on firm’s performance have been controversial. In the case of explorative resources, flexible resource management is considered important due to higher uncertainty in comparison to exploitative resource management, which typically requires more slack resources. Thus, in this study, we argue that the level of quality in human resource management differently influences the effective use of resources, either exploitative or explorative resources. We also attempt to investigate how slack resources affect the relationship between quality of human resource management and different strategic focus, either exploitation or exploration.

Keywords: Exploitation, Exploration, Slack Resource, Human Resource Management

1. Introduction
Although extensive studies related to human resource management (HRM) have been conducted, various opinions remain regarding the causal mechanisms between HRM and a given firm’s performance (e.g. Snell and Youndt, 1995; Ngo et al., 1998; Pavlov et al., 2017). The common arguments, however, state that HRM is a key factor having substantial influence on a firm’s market performance(e.g. Waiganjo et al., 2012). In addition to better HRM, firms need to continuously deliver products and services with higher quality and/or superior innovation. Numerous studies have shown that HRM is one of the foundations of improved products and services in either quality, innovation, or both (e.g. Bou and Beltrán, 2005; Laursen and Foss, 2003; Perdomo-Ortiz et al., 2009).

While exploratory learning involves the creation of new knowledge for innovation of products and services, exploitative learning refines and deepens current knowledge for achieving improved quality of current products and services (Lubatkin et al., 2006). Thus, exploitation enables managers to refine and continuously improve current organizational process for higher productivity and efficiency, while exploration allows for varied experimentation in the search for emerging opportunities in the market (Diaz-Fernandez et al., 2017). Such different strategic approaches cause the returns from either exploitation or exploration to be different. Exploitation generates more stable performance since it is focused on business practices with more certainty and a shorter time frame whereas exploration generates more variability in performance which may lead to either notable success or substantial failure.

The existing literature (e.g. March, 1991; Liu, 2006) has asserted that both exploration and exploitation utilize different types of resources due to characteristics requiring dissimilar patterns of knowledge flows. According to the perspective of March (1991), which is considered a dominant view in the literature, emphasis
on both exploration and exploitation shows trade-offs being made to overcome organizational limitations since both exploration and exploration require different structures, cultures, capabilities, and strategies. Thus, some scholars argue that structural separation for exploitative and explorative practices is required due to the pursuit of different concentrations. For example, Vohrines et al. (2011) investigated how both marketing exploration and exploitation influence brand management and customer relationship management (CRM), thus impacting a firm’s financial performance. In their study, it was found that both marketing exploration and marketing exploitation might negatively impact customer-focused marketing capabilities.

Some scholars have asserted that a balance between exploration and exploitation is needed (e.g. He & Wong, 2004; Kang et al., 2007; Uotila et al., 2009), requiring efficient resource allocation management between them. For instance, He and Wong (2004) showed that a balanced approach between exploitation and exploration positively influences a firm’s sales growth rate. Similarly, Uotila et al. (2009) argued that environmental conditions influence the balance between exploitation and exploration. Their analysis showed that an inverted U-shaped relationship occurs between the level of exploitative practices and financial performance. Thus, some scholars maintain that a firm needs ambidexterity to be more competitive in the market, thereby requiring both exploratory and exploitative learning (e.g. O’Reilly and Tushman, 2004; Birkinshaw and Gibson, 2004).

In recent years, numerous studies regarding organizational slack resources have been conducted (e.g. Tan, 2003; Tan and Peng, 2003; Stan et al. 2014). Slack resources can be used in various ways, such as providing a buffer in unexpected market conditions and performance disruptions, and as a resource for experimentation with higher risks. Notable examples in the study of slack resources include Tan (2003) and Tan and Peng (2003) whose studies of state-owned enterprises found that a curvilinear relationship occurs between organizational slack and firm’s performance. More recently, Vanacker et al. (2013) assessed the relationship between financial and human resources and firm performance in the presence of either venture capital investors or angel investors. Likewise, Stan et al. (2014) presented a model to study the relationships between slack and the performance of state-owned enterprises regarding the economic and social aspects.

The results of the effect of slack resources on firm’s performance have not been consistent. For example, while some scholars find a positive relationship between slack resources and firm performance (e.g. Daniel et al., 2004; George, 2005; Nguyen et al., 2019) while others do not (e.g. Paelman and Vanacker, 2005). Them.

Even though extensive studies related to HRM, resource slack, and exploration and exploitation have been conducted separately, there is a lack of research explaining how these three components influence each other. This present study attempts to investigate the relationships among the level of control in HRM, the effect of exploitation and exploration, and resource slack. In some studies of resource slack, previous researchers (e.g. Tan and Peng, 2003; Chen and Huang, 2010) have classified resource slack as either absorbed slack or unabsorbed slack. Absorbed slack refers to a resource which is currently committed and hardly deployable, such as specialized skilled labor. On the other hand, unabsorbed slack indicates a resource which is uncommitted and deployable, such as cash and credit lines. In this study, the focus is on understanding how different slack (absorbed vs. unabsorbed) influences the relationship between the level of control in HRM and the effect on exploitation and exploration. The following figure provides an overview proposed for this study.

**Figure-1: Model Overview**
2. Literature Review

2.1. The Control level in HRM with Exploration and Exploitation

As exploration focuses on the creation of new services and products, exploitation emphasizes on the improvement of current offerings. Furthermore, a firm’s explorative and exploitative approaches show clear differences in required resources, processes, culture, etc. As most firms struggle with limited resources, the decision-making process in resource allocation management (namely, choosing either an explorative or exploitative strategic approach) is critical. Unlike the selection of biased strategic approaches, some scholars argue that rather than relying on a single approach (i.e. explorative or exploitative), a balanced approach is required for firms to achieve successful performance over time. For example, Jansen et al. (2012) showed that unit-level ambidexterity positively affects the unit’s performance. Such a positive relationship is likely to rise as units within an organization are decentralized and resources used by units become independent.

The common ground between exploitation and exploration is that they are based on learning. For such learning to be reflected into a firm’s performance, human resources play a critical role. Numerous studies have demonstrated the important role of human resource management in the result of firm’s performance associated with exploitative, explorative, or ambidextrous strategic focus. For example, Cantarello et al. (2012) posited that human resource practices providing multi-task related training, as opposed to task-related training, contributes to the improvement of employees’ capabilities to improve product quality. In such a positive relationship, the level of organizational commitment of employees enhances the results of the relationship between human resource practices and product/service quality. Specifically, Aryanto et al. (2015) showed a positive relationship between HRM and innovation capability (the human element was one of the significant factors in the innovation process). Prieto and Pilar (2012) found that high-involvement practices of human resources may positively affect the firm’s performance throughout the establishment of better social climates thereby encouraging ambidextrous learning. In a study of the linkage between HRM and innovation, Santiago and Alcorta (2012) posited that effective training of employees has a positive effect on innovation by enhancing the quality of learning process and absorptive capacity. However, Kostopoulos et al. (2015) pointed out that while human capital (i.e. knowledge, skills, and ability possessed by employees) and social capital (i.e. internal and external networks) are positively related to ambidexterity, organizational capital institutionalizing knowledge is negatively associated with ambidexterity. In their study, human resource practices providing workforce motivation and opportunity to perform and utilize diverse knowledge amplifies and mitigates the relationship among human, social, and organizational capital and ambidexterity. Sok and O’Cass (2015) argued that employees are a critical resource in resolving the complex tasks which occur when exploitative and explorative activities are simultaneously pursued. Thus, the effect of ambidexterity on perceived quality from the market also increases as employers’ empowerment is enhanced. The performance of ambidextrous firms is better than the pursuit of either exploration or exploitation at different times. Chen and Huang (2010) found an inverse U-shape relationship between innovation performance and the density of creative workforce as both conflicts among workforce and coordination problems may arise, although benefits such as knowledge sharing and learning are positively related to number of creative members within an organization’s workforce.

Since exploitation and exploration have different purposes, it is appropriate that HRM should be applied differently in varying contexts. For example, since exploration requires different ideas to create new service/product, employees involved in explorative practices need to be less controlled to have higher flexibility. On the other hand, more controls for exploitative practices would be needed to improve existing processes. For example, Kang et al. (2007) and Medcof and Song (2013) argued that human resource practices in exploration and exploitation are different. In exploration, HR practices are less formalized when work structure needs to be flexible. Although such HR practices may provide more flexibility and improvisation, the disadvantages may involve reduced process transparency, less developmental feedback, and decreased training, all of which are needed in exploitation. Thus, the following proposition is suggested:
P-1: The relationship between the level of control in HRM and the effect of exploration is significantly negative, while the relationship between the level of control in HRM and the effect of exploitation is significantly positive.

2.2. Effect of Slack Resources on Exploitation and Exploration and HRM

Studies regarding slack resources have been extensively conducted. However, the results of the relationships between slack resources and firm’s performance have varied. Singh (1986) was the first to discuss the concept of slack by dividing it into the two categories of absorbed slack and unabsorbed slack. More recently, Lee and Wu (2016) stated that absorbed slack is devoted to human resources, overhead expenses, or other administrative costs; on the other hand, unabsorbed slack can be referred to as excess, uncommitted liquid assets which may improve a firm’s capability to meet present obligations with existing resources. For example, Paeleman and Vanacker (2015) showed that firms either having slack in financial and human resources or lacking slack in such resources do not show better performance. In their study, firms showing superior performance had slack in unabsorbed financial resource and constraints in absorbed human resources which may be difficult to redeploy. Daniel et al. (2004) posited that a positive relationship existed between three types of slack—classified as being available, recoverable, and potential—and financial performance. Zhang et al. (2018) studied three different types of slack (i.e., absorbed slack human resources, other kinds of absorbed slack resources, and unabsorbed slack resources) in the relationship between a firm’s performance and internationalization. The results showed that unabsorbed slack resources are typically utilized as buffers in deploying international projects. Vanacker et al. (2017) studied the financial performance of privately held firms; their findings indicate that a positive relationship exists with financial slack and a negative relationship with human resource slack at diminishing rates. Also, Wiersma (2017) noted that when an organization seeks many profitable investment opportunities, slack tends to produce greater benefits. Thus, the overall net impact of existing slack is positively related to organizational performance.

In an earlier study, George (2005) assessed the relationship between slack resource (classified as low discretion and high discretion) and the financial performance of privately held firms. Their results showed that when resource demands exceed availability, performance tends to be better. Nguyen et al. (2019) pointed out that other types of absorbed slack initiating from the financial surplus of business operations may be allocated to relieve internal pressure. This type of slack is characterized by lower discretion levels regarding usage. Certainly, operating businesses with excess financial cash flow might be a challenge during economic downturns. Thus, it was suggested that specific forms of slack resource negatively affect the performance.

The literature has pointed out that both exploitation and exploration require different types of resources, as their focus on performance varies with different risk levels. In the case of exploitation, required knowledge is created in the path dependent under routinized processes, requiring more controls. In contrast, since exploration requires breakthrough knowledge, it is expected that explorative practices will be relatively improvised, incur chaos, and require more autonomy. Thus, the demand amount of resources between exploitation and exploration are different.

Voss et al. (2008) showed how slack resources interact with environmental threats in exploitation and exploration of product. In their study, human resource slack was positively related with product exploitation; nevertheless, the relationship with exploration was not supported, which is consistent with the results of Mishina et al. (2004).

Diaz-Fernandez et al. (2017) pointed out that as demanded skills in exploitation and exploration activities are different, human resource practices also need to be applied differently. In their study, human capital for exploitation needs to have special skills with deeper knowledge for current processes and products. In contrast, general skills are required for exploration to be conducted to gain future skills.

Chen and Huang (2010) showed that absorbed slack strengthens an inverse U-shape relationship between innovation performance and the density of creative workforce, whereas unabsorbed slack minimizes such a relationship. Thus, the following propositions are suggested:
P-2a: Unabsorbed slack positively moderates the negative relationship between the level of control in HRM and the effect of exploration.

P-2b: Absorbed slack positively moderates the positive relationship between the level of control in HRM and the effect of exploitation.

3. Conclusion

Although many studies involving human resource management, firm exploitation and exploration, and slack resources have been conducted, the relationships among them are still ambiguous. Such unclear relationships appear to result from various factors including the different environments where a firm is involved, strategic focus, organizational structure, culture, etc. However, the research discussed here suggests these factors are considerably associated with firm’s performance.

Throughout the propositions suggested in this paper, it is hoped that both researchers and practitioners will gain insights to understand the complicated relationships among these elements, as well as what factors make such relationships to be affirmed.

Reference


