It has been almost five years since the Strategic Human Capital Interest Group was formed. We embarked on this remarkably bold venture in 2010 (with the SMS conference in Rome) to provide a forum for scholarship that addresses the critical connection between human capital and firm performance, and to bring together strategy and human resources scholars who are interested in these questions. During our IG’s business meeting in Madrid last year, Clint Chadwick and I raised the question of how we were faring relative to our founding goals, and how we might do better. The feedback we received was absolutely great, and has led to the development of some key initiatives that I’m delighted to report on.

But first, I should note that the strategic human capital community at large is thriving. Several conferences and workshops have now been held, and some have become regular features. More human capital research has appeared in our leading journals, some of which reflect genuine integration and collaboration between strategy and human resources scholars. A special issue devoted solely to strategic human capital, with the goal of fostering such integration, was published last year in the Journal of Management. Several doctoral students are doing or have completed dissertations focused on strategic human capital questions and are now the lifeblood of our community. The human capital and micro-foundations movements in strategy are finding increasing common ground, and human capital-related work is finding its way into virtually all areas of strategic management research.

And yet, despite this abundance of good news, many opportunities remain to be seized. Some of these opportunities have been described later in this newsletter by three past Chairs of our interest group – namely, Russ Coff, Patrick Wright and Todd Zenger – each of whom exhort us all to action in different ways. What I want to describe here are some new exciting initiatives being undertaken more formally by our interest group.

Communications: One of the unique features of the strategic human capital IG group is its broad appeal both across areas within strategic management, and also to colleagues in adjacent fields such as human resources and organizational behavior. Therefore, one key initiative we are pursuing is to strengthen our communications and reach out to these various communities to increase awareness of what our interest group has to offer. Inter alia, a call for papers for this
Pat Wright, Tom Moliterno and I wrote about some of the unexpected challenges we encountered in the Journal of Management Strategic Human Capital Special issue. In retrospect, we should not have been surprised. Strategy and HR people think about the world differently and, while we might be able to create significant value together, that doesn’t mean it will be easy.

That experience has gotten me to realize that value can be created in several different ways and that not all of them require close collaboration and agreement on a common course in the literature. It is also possible that the strategy and HR literatures will proceed independently but with new avenues of inquiry.

What follows are a few ideas that I think might change the nature of the discourse in the literature. Importantly, these do not require collaboration among HR and strategy scholars – just an open mind to new ideas.

Different Directions for HR

Beyond HR Departments. The strategic HR literature has identified a series of HR practices that help to explain performance differentials among firms. This latter award honors one of the founding principles of our interest group, which is to support and encourage such integrative research. In turn, we hope that such recognition from our community will boost cross-fertilization of ideas across what might otherwise be more isolated academic silos.

In summarizing these initiatives, I would be remiss if I did not acknowledge the invaluable contributions of the entire leadership team of our interest group. Clint Chadwick and Shad Morris (as IG Chair and Associate Program Chair, respectively) have been an integral part of developing these initiatives, and will shoulder the responsibility of organizing the pre-conference activities. And, all of our representatives-at-large have been enthusiastic volunteers in support of executing these plans. As you may notice, Denisa Mindruta has taken the lead in editing this newsletter. Daniel Elfenbein and Rebecca Kehoe will be judging the best paper awards, and Seth Carnahan and David Kryscynski will help with the pre-conference activities. They deserve your sincere thanks for their exemplary service.

We look forward to receiving your conference submissions and seeing you in Denver, if not sooner!!
(Continued from page. 2)

line managers. Even for larger firms, the more human capital intensive (R&D, professional, sports, etc.), the more likely strategic HR decisions may be made by top executives – with or without the involvement of HR managers.

I recently saw 7 successful entrepreneurs stand up and, un-prompted, speak about how critical the HR issues were when they started their companies. It may be that elements of strategic HR are even more predictive of performance differentials between firms in such contexts.

Firm specific human capital is heavily emphasized in the strategy literature as a source of heterogeneity. As a general rule, human resource professionals don’t focus on firm-specific knowledge and neither does the HR strategy literature. Most training is considered to be general in nature (e.g., management skills that would be portable to other firms). Are firm specific skills irrelevant? An alternative viewpoint might be that they are sufficiently tacit that they would be hard to convey or measure. Do some employees feel constrained because their skills are hard to adapt to another firm? Do hiring managers sometimes assess that a job applicant’s skills are specific to another context and not useful to the firm? If so, there may be more to this problem than the current HR literature suggests. Even if firm-specific human capital were irrelevant, it would be a significant contribution to demonstrate that. It is hard to imagine a bigger rift between HR and strategy scholars than this. More light on this might help both literatures move forward.

Strategic Redirection

There are a number of opportunities to redirect the strategy literature drawing on observations from the HR literature.

High Performance Work Systems Matter. Strategy scholars tend to minimize the idea that codified HR practices can lead to performance differentials. I am reminded of the story of someone pointing out a $20 bill on the sidewalk to Milton Friedman. His response: “if there were a $20 bill, it would have been picked up by now.” Empirically, the practices have predictive validity for firm performance. Is it that they are not really fully codified (e.g., the chef who withholds the secret ingredient when giving out a recipe)? Are they, in fact, customized to the culture and context of each firm so they cannot be easily applied elsewhere? One common explanation is that implementation can be difficult even if one knows what they want to implement.

This type of friction applies in many, if not all, areas of strategy (M&A integration, organizational change, etc.). Perhaps strategy scholars need to take this seriously and consider such frictions in the context of theories of strategic human capital. While it might be valuable to have a theory of performance differentials in a frictionless world, it might be more valuable to have theories that take seriously the resource and information asymmetries that lie at their core.

Firm Specific Human Capital may not Matter. HR managers might be right. It could be that firm-specific skills are not nearly as important as has been thought. The strategy literature has leveraged Becker’s thinking nicely to seek answers to questions about firm performance that he did not fully consider. However, Becker did not take firm heterogeneity seriously. For example, strategic human capital theory tends to assume that general human capital is ubiquitous and of equal value to all firms (hence a common wage where the full value is captured by the employee). However, we know that firms have distinct complementary assets (brands, facilities, etc.) and that workers vary tremendously in quality. This means that a worker with especially strong general skills (a star) might be very rare and might be worth different amounts to firms that have distinct complementary assets (e.g., a star software engineer with no firm-specific skills might be worth different amounts to Google and Wal-Mart). Furthermore, even general human capital can be very hard to observe and price in imperfect labor markets. Empirically, we can observe that firms invest heavily in general human capital. There would seem to be a need for our theory to catch up and explore why this matters so much.

Who is a firm? The problem of value capture is intimately tied to strategic human capital. To me this boils down to the question of whether employees are considered to be part of the firm or not. Some years back, I conducted a survey of strategy scholars that suggested a firm could only have a competitive advantage from a very rare star scientist if the
Becker's (1964) own discussion seems to recognize similar themes, suggesting that firms often "provide" firm specific human capital (see page 19), and that firms may not capture returns from it (see page 21). We need to rethink the idea and role of firm specific human capital.

Second, and relatedly, we need a more robust conception of human capital's role in value creation. Becker's model, from which we have so actively drawn, is fundamentally an additive conception of value creation. Each employee generates value by inducing employees to make costly firm specific investments in human capital—investments that are uniquely valuable to the firm, and worthless elsewhere. In this common conception, the manager's central challenge is inducing investments employees are not wont to make. For my taste, the paradox here is largely manufactured and the costly investment demands are a sideshow. In most firms, firm specific human capital simply accumulates or emerges when a strategic manager composes an effective organization with an insightful path to value creation. It is an outcome (or even a condition) of employment. Becker's (1964) own discussion seems to recognize similar themes, suggesting that firms often "provide" firm specific human capital (see page 19), and that firms may not capture returns from it (see page 21). We need to rethink the idea and role of firm specific human capital.

These are a few initial ideas of mine. I see the chasm between HR and strategy not as a barrier to working together but as an indication of the opportunities to be explored.
organization? In an organization where value is a function of complementarity and fit, conducting a simple “value of the organization with me and without me” test for each employee and then summing these values yields a sum that far exceeds the total value created. Generating value is about composing fit and complementarity; it is generally not about inducing individually additive firm specific human capital. If we are to make theoretical or empirical progress we need to adopt models consistent with value added logic—models consistent with the reality of superadditive value creation within firms.

Third, to advance the promise of human capital we need to aggressively exploit and develop the emerging longitudinal employer employee matched datasets that have become increasingly pervasive. Such data allow scholars to potentially explore foundational micro-foundational predictions about human capital. These datasets allow questions such as:

♦ How does the entrance or exit of individuals from firms influence organizational performance?
♦ How do individual attributes, matched to firm attributes, shape individual entrance and exit decisions? In other words, how precisely does the process of self-selection work?
♦ How do firm characteristics shape individual characteristics over time? In other words, what is the “treatment” effect that firms have on individuals and how do these treatments ripple through the remainder of employees’ careers and the organizations that employ them?
♦ How do individual characteristics shaped by prior firm experiences influence firm performance?
♦ How do innate characteristics of individuals attracted to firms shape firm performance?

In conclusion, a serious theoretical and empirical focus on the dynamic role that individuals play in creating value within and capturing value from organizations has enormous potential to shape strategy. It promises to yield a clearer understanding of how organization value is created, diffused, and appropriated. Moving beyond traditional conceptions of firm specific human capital and additive human capital production functions is vital to progress. Accessing promising new data sources will prove equally important. Finally, greater clarity in our theoretical and empirical understanding of how individuals and organizations interact to create value is critically important to central policy debates about government supported R&D, support for small business, and labor laws such as non-compete statutes. I look forward to future human capital research along these and other even more exciting trajectories.

References
changed; that is an editorial comment for authors to deal with in a subsequent revision. (I note, however, that in that subsequent revision, if the “lack of theory” still exists, then it may signal that the authors do not possess the capability to adequately leverage theory, and that then may be the time for such an omission to result in rejection.)

In order to support my rationale, let me begin by asking the question, what is theory? Kerlinger defined theory as:

“A theory is a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena” (p. 9)

So why do I see this criticism, particularly leading off a decision letter? Because often the criticism represents one of two issues. First, sometimes the “lack of theory” stems more from a different view of what constitutes theory than from a true lack of it. For instance, having grown up in a micro tradition, I was indoctrinated into a mindset of explaining the relationships between the variables you measured based on some overarching theory (e.g., expectancy, goal setting, etc.) However, when I was initially exposed to more macro researchers who kept talking about “telling a story” I felt like I had been dropped on a new planet. These stories usually consisted of taking an IV at one end, a DV at the other end, and then proposing a bunch of flowery processes and variables in between that somehow happen, but are not measured. Neither approach is right or wrong; they are both just different and may serve as an obstacle to bridging the macro-micro divide (Wright, Coff, and Moliterno, 2014).

Second, the lack of theory concern may just mean a disagreement around which theory is most appropriate. A particular phenomenon could be explained by signaling theory, sense-making theory, or a host of other theories, yet because a reviewer doesn’t like the theory chosen by the author(s), the “lack of theory” criticism rears its ugly head.

So, I still have concerns about the “lack of theory” as a rationale for rejection, particularly on first drafts and yet I continue to see it as an author, reviewer, and editor.

2. Distinguish between Matters of Opinion and Validity.

My concern here revolved around situations where reviewers may not like an aspect of the study, but substitute their opinion (not liking) for legitimate criticism (valid critique). I recently experienced this with a manuscript lead authored by my colleagues.

We survey the Fortune 500 Chief HR Officers every year around their role and some of the current challenges they face in that role. The CHRO role has become a critical component of Top Management Teams (TMT’s), both because of the centrality of human capital (talent) to strategic success, but less well known, because that individual often plays the role of Counselor/Confidante/Coach to all the members of the TMT, especially the CEO. Surveying this individual can provide unique insight into many of the interpersonal dynamics playing out on the TMT, and between the CEO and the board because the CHRO usually is the sounding board for all of the relevant parties.

We provided data on how much time CHROs express they spend with the CEO/TMT in preparation for board meetings, with the CEO individually debriefing after board meetings, with the TMT debriefing after the board meeting, and how much time overall they spend on board-related activities as justification for why this individual is well positioned to report on the relationship between the CEO and board. After all this we had a reviewer who said s/he still could not believe that CHROs have any knowledge of this phenomenon. In other words, his/her opinion was that the CHRO is a lowly administrative grunt, and no data would convince this individual otherwise. Thus, it seems that reviewers in this literature continue to substitute opinion for factual critique, a problem that will present an obstacle to progress in the field.

3. A Good Idea, Taken to the Extreme, becomes Bad.

This criticism suggested that sometimes we, as reviewers, find almost a checklist for the kinds of things that are unarguably fatal flaws, without necessarily addressing if there were practical concerns that might justify the methodology. For instance, I noted how some reviewers have obsessed about the need for multiple raters of HR practices even though holding such a criterion as necessary might greatly reduce the number of studies on HR practices.

Today I tend to see this in the “endogeneity” problem. Certainly endogeneity can characterize our studies and limit...
inferences we might want to draw. However, requiring all studies to adequately rule out this issue might cause little SHC research to see the light of day. Raising the issue or asking authors to address how the issue might impact their conclusions seems completely legitimate. However, setting the “no endogeneity problem” bar for accepting studies seems a standard way too high for the good of the field.

4. The Perfect is the Worst Enemy of the Good.

In my rant I noted how reviewers often question why the researcher did not do something different (e.g., measure variable X, use a larger sample, use a more generalizable sample, etc.) and then reject the paper because they thought of a better way to do the study the authors did. I think we still face this issue today, and often it comes from our different views of theory. Micro researchers tend to be trained in developing the theory from the variables that are measured, thus, when they see a paper that talks about intervening variables, they critique it for not measuring those variables! Macro SHC reviewers theorize about all kinds of intervening processes as a means of explaining the relationships between the observed variables. Thus, when they review a micro article that only explains the direct relationships between the observed variables, they critique it as having no theory!

Having noted a number of the problems that concerned me 5 years ago, let me now address a few that have emerged, at least in my mind, over that time.

5. We Often Study What is Interesting to Us, not Important to Organizations.

I cannot begin to tell you the number of articles I have reviewed for various journals exploring the firm-specific vs. general human capital issue, particularly regarding the relative potential, or under what circumstances each might provide a source of sustainable competitive advantage. Intellectually I find such explorations intriguing. However, my work with companies suggests that in most ways they could not care less about this issue. Ulrich and Kryscynski (in press) present strong arguments and anecdotal data for how a number of issues we study simply do not concern organizations.

This does not suggest that firms do not implicitly consider such issues. For instance, some firms develop internal MBA programs so that their people will gain general skills, but not in a way that provides external signaling of those skills (as would a formal MBA degree from an accredited institution) which might make them more mobile. But it does mean that we may spend inordinate amounts of time studying what firms view as relatively obvious or unimportant.

This problem became apparent at a conference we held last year at USC. On Friday we had one leading HR Consultant and 4 Chief HR Officers from Merck, American Express, Coca-Cola Enterprises and Boeing’s Commercial Aviation business, followed by a meeting of an eclectic mix of researchers exploring human capital issues. The academic conversation continued to point to insights for our work that came from the executives’ presentations the day before. However, one would have been hard-pressed to think of a number of insights from the academic presentation that the CHROs would have been excited about. This leads to the last issue.

6. Houston, We Have a (Translation) Problem!

I truly do not believe that the SHC field’s research has nothing to say to practice. However, I believe with all my heart that given our current language, we will struggle to impact practice in a positive way. We talk and write fluently about rents, quasi-rents, appropriation quasi-rents, time compression diseconomies, etc. yet such language may as well be Mandarin for practicing executives. For instance the firm-specific/general human capital concept is implicitly recognized in HR strategies, while the terms themselves would not.

In addition, we continue to publish in outlets seldom read by practitioners, thus they miss valuable research that could inform their decisions making. For example, when I chose to come to USC, part of my rationale was to join a number of leading SHC researchers (e.g., Yasamin Kor, Rob Ployhart, Anthony Nyberg, etc.) where we could, as a group, focus on SHC issues. However, I asked the CHRO at SunTrust, who for years has been attempting to show the relationship between people and business performance, if he was aware of Rob Ployhart’s work in this area. In spite of the fact that he had been part of USC’s Reigel and Emory Center for Human Resources for over 10 years, he was not aware of it. Rob’s work is out there for all to see, but we still struggle to get it into the hands of those who need it most: practitioners!

Future Directions: Let’s get Practical.

If one were to ask me what will help the SHC field grow

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most quickly, my answer would be for it to get more practical. However, that does not ONLY mean that we increasingly interact with practice. Certainly working with organizations to see how they view human capital as well as the challenges they face in managing it can provide interesting research ideas. However, I also mean practical in the sense of recognizing the constraints in conducting research in this area. In many cases our measure will lack high psychometric quality. In others we may have to begin with phenomena (talent management anyone!?!?) and let theory follow later. However, whatever the case, when those reviewing in the field recognize the difficulties in conducting good research along with the fact that all studies have flaws, that is when the field will blossom with new ideas and insights.

References


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SMS Submission Guidelines and Deadlines

- Call for Proposals: http://denver.strategicmanagement.net/call_for_proposals.php
- Proposals (5-7 pages, for paper and panel sessions). Only original, unpublished work is sought.

Deadline for Submission of Proposals: February 26, 2015

We hope to see you in Denver!

Strategic Human Capital Interest Group

Call for Information, Ideas and Suggestions

The Strategic Human Capital Interest Group is for you. We are seeking to create a group that will provide a forum for the exchange of ideas on the topic of strategic human capital. Please send us your ideas, comments, suggestions and feedback regarding the Interest Group to the Chairperson, Clint Chadwick (clint.chadwick@ku.edu). We welcome news and topics you think will be of interest to the readers of this newsletter (e.g., conferences, calls for papers, books, etc.).