

How do interdependencies among human-capital deployment, development, and diversification strategies affect firms' financial performance?

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Abstract

Using key insights from the resource-based view of the firm, we develop and test a theory of how firms can successfully deploy and develop their strategic human assets while managing the trade-offs in their service and geographical diversification strategies. In a sample of large law firms we find that, even though firms profit from expert human-capital leveraging strategy and service and geographical diversification strategies individually, pursuing these strategies simultaneously at high levels produces negative interaction effects on firm profitability. In addition, the internally developed, firm-specific associate human capital strategically fits better with high levels of expert human-capital leveraging. While lateral hiring helps firms build new knowledge bases and take advantage of growth opportunities, pursuing high levels of both expert human-capital leveraging and lateral hiring of associates results in lower profitability. To fully capture the economic benefits from strategies of diversification, human-capital leveraging and lateral hiring, firms should understand and manage the complex interdependencies among multiple levels of strategy. Copyright © 2005 John Wiley & Sons, Ltd.

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