

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

Yasemin Y. Kor✉, Huseyin Leblebici

First published: 25 August 2005

<https://doi.org/10.1002/smj.485>

Citations: 240

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.

REFERENCES

Arrow KJ. 1974. *The Limits of Organization*. W. W. Norton: New York.

| [Google Scholar](#) |

Bailey EE, Helfat CE. 2003. External management succession, human capital, and firm performance: an integrative analysis. *Managerial and Decision Economics* 24: 347–369.

| [Google Scholar](#) |

Barney JB. 1986. The strategic factor markets: expectations, luck and business strategy. *Management Science* 32(10): 1231–1241.

| [Web of Science®](#) | [Google Scholar](#) |

| [Web of Science®](#) | [Google Scholar](#) |

Becker GS. 1993. *Human Capital*. University of Chicago Press: Chicago, IL.

| [Google Scholar](#) |

Bierly P, Chakrabarti A. 1996. Generic knowledge strategies in the U.S. pharmaceutical industry. *Strategic Management Journal*, Winter Special Issue 17: 123–135.

| [Web of Science®](#) | [Google Scholar](#) |

Bogner WC, Mahoney JT, Thomas H. 1998. Paradigm shift: the parallel origin, evolution and function of strategic group analysis with the resource-based theory of the firm. In *Advances in Strategic Management*, Vol. 15, J Baum (ed). JAI Press: Stamford, CT; 63–102.

| [Web of Science®](#) | [Google Scholar](#) |

Chang SJ. 1996. An evolutionary perspective on diversification and corporate restructuring: entry, exit, and economic performance during 1981–1989. *Strategic Management Journal* 17(8): 587–611.

| [Web of Science®](#) | [Google Scholar](#) |

Christensen HK, Montgomery CA. 1981. Corporate economic performance: diversification strategy versus market structure. *Strategic Management Journal* 2(4): 327–343.

| [Web of Science®](#) | [Google Scholar](#) |

Coff RW. 2002. Human capital, shared expertise, and the likelihood of impasse in corporate acquisitions. *Journal of Management* 28(1): 107–128.

| [Web of Science®](#) | [Google Scholar](#) |

Delery JE, Doty DH. 1996. Modes of theorizing in strategic human resource management: tests of universalistic, contingency, and configurational performance predictions. *Academy of Management Journal* 39: 802–835.

| [Web of Science®](#) | [Google Scholar](#) |

Dierickx I, Cool K. 1989. Asset stock accumulation and competitive advantage. *Management Science* 35(12): 1504–1511.

| [Web of Science®](#) | [Google Scholar](#) |

Farjoun M. 1994. Beyond industry boundaries: human expertise, diversification and resource-related industry groups. *Organization Science* 5(2): 185–199.

Farjoun M. 1998. The independent and joint effects of the skill and physical bases of relatedness in diversification. *Strategic Management Journal* 19(7): 611–630.

Finkel SE. 1995. *Causal Analysis With Panel Data*. Sage: Thousand Oaks, CA.

Gilson RJ, Mnookin RH. 1985. Sharing among the human capitalists: an economic inquiry into the corporate law firm and how partners split profits. *Stanford Law Review* 37: 313–397.

Gilson RJ, Mnookin RH. 1989. Coming of age in a corporate law firm: the economics of associate career patterns. *Stanford Law Review* 41(460): 567–595.

Gilson RJ, Mnookin RH. 1990. The implicit contract for corporate law firm associates: ex post opportunism and ex ante bonding. In *Firm as a Nexus of Treaties*, M Aoki, B Gustafsson, O Williamson (eds). Sage: Newbury Park, CA; 209–236.

Grant RM. 1996a. Toward a knowledge-based theory of the firm. *Strategic Management Journal*, Winter Special Issue 17: 109–122.

Grant RM. 1996b. Prospering in dynamically-competitive environments: organizational capability as knowledge integration. *Organization Science* 7(4): 375–387.

Greene WH. 2000. *Econometric Analysis*. Prentice-Hall: Upper Saddle River, NJ.

Hall R. 1992. The strategic analysis of intangible resources. *Strategic Management Journal* 13(2): 135–144.

Hall R. 1993. A framework linking intangible resources and capabilities to sustainable competitive advantage. *Strategic Management Journal* 14(8): 607–618.

| [Web of Science®](#) | [Google Scholar](#) |

Helfat CE, Eisenhardt KM. 2004. Inter-temporal economics of scope, organizational modularity, and the dynamics of diversification. *Strategic Management Journal* 25(13): 1217–1232.

| [Web of Science®](#) | [Google Scholar](#) |

Henderson R, Cockburn I. 1994. Measuring competence? Exploring firm effects in pharmaceutical research. *Strategic Management Journal*, Winter Special Issue 15: 63–84.

| [Web of Science®](#) | [Google Scholar](#) |

Hitt MA, Bierman L, Shimizu K, Kochhar R. 2001. Direct and moderating effects of human capital on strategy and performance in professional service firms: a resource-based perspective. *Academy of Management Journal* 44(1): 13–28.

| [Web of Science®](#) | [Google Scholar](#) |

Hsiao C. 1996. *Analysis of Panel Data*. Cambridge University Press: New York.

| [Google Scholar](#) |

Huber GP. 1991. Organizational learning: the contributing processes and the literatures. *Organizational Science* 2(1): 88–115.

| [Web of Science®](#) | [Google Scholar](#) |

Huselid MA. 1995. The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal* 38(3): 635–672.

| [Web of Science®](#) | [Google Scholar](#) |

Itami H, Roehl TW. 1987. *Mobilizing Invisible Assets*. Harvard University Press: Cambridge, MA.

| [Web of Science®](#) | [Google Scholar](#) |

Johnston J, DiNardo J. 1997. *Econometric Methods*. McGraw-Hill: New York.

| [Google Scholar](#) |

Kamoche K. 1996. Strategic human resource management within a resource-capability view of the firm. *Journal of Management Studies* 33(2): 213–233.

Kennedy P. 1998. *A Guide to Econometrics*. MIT Press: Cambridge, MA.

| [Google Scholar](#) |

Klein B, Crawford RG, Alchian AA. 1978. Vertical integration, appropriable rents, and the competitive contracting process. *Journal of Law and Economics* 21(October): 297–326.

| [Google Scholar](#) |

Koch MJ, McGrath RG. 1996. Improving labor productivity: human resource management policies do matter. *Strategic Management Journal* 17(5): 335–354.

| [Web of Science®](#) | [Google Scholar](#) |

Kogut B, Zander U. 1996. What firms do? Coordination, identity and learning. *Organization Science* 7(5): 577–590.

| [Web of Science®](#) | [Google Scholar](#) |

Kor YY. 2003. Experience-based top management team competence and sustained growth. *Organization Science* 14(6): 707–719.

| [Web of Science®](#) | [Google Scholar](#) |

Kor YY, Mahoney JT. 2000. Penrose's resource-based approach: the process and product of research creativity. *Journal of Management Studies* 37(1): 109–139.

| [Web of Science®](#) | [Google Scholar](#) |

Kor YY, Mahoney JT. 2004. Edith Penrose's (1959) contributions to the resource-based view of strategic management. *Journal of Management Studies* 41(1): 183–191.

| [Web of Science®](#) | [Google Scholar](#) |

Lado AA, Wilson MC. 1994. Human resource systems and sustained competitive advantage: a competency-based perspective. *Academy of Management Review* 19(4): 699–727.

| [Web of Science®](#) | [Google Scholar](#) |

Leonard-Barton D. 1992. Core capabilities and core rigidities: a paradox in managing new product development. *Strategic Management Journal*, Summer Special Issue 13: 111–125.

| [Web of Science®](#) | [Google Scholar](#) |

Mahoney JT. 1995. The management of resources and the resource of management. *Journal of Business Research* 33: 91–101.

| [Web of Science®](#) | [Google Scholar](#) |

Mahoney JT, Pandian JR. 1992. The resource-based view within the conversation of strategic management. *Strategic Management Journal* 13(5): 363–380.

| [Web of Science®](#) | [Google Scholar](#) |

Maister DH. 1993. *Managing the Professional Service Firm*. Free Press: New York.

| [Google Scholar](#) |

Makadok R. 2001. Toward a synthesis of the resource-based and dynamic-capability views of rent creation. *Strategic Management Journal* 22(5): 387–401.

| [Web of Science®](#) | [Google Scholar](#) |

Malos SB, Campion MA. 1995. An options-based model of career mobility in professional service firms. *Academy of Management Review* 20(3): 611–644.

| [Web of Science®](#) | [Google Scholar](#) |

March JG. 1991. Exploration and exploitation in organizational learning. *Organization Science* 2(1): 71–87.

| [Web of Science®](#) | [Google Scholar](#) |

Markides CC. 1992. Consequences of corporate refocusing: ex-ante evidence. *Academy of Management Journal* 35(2): 398–412.

| [Web of Science®](#) | [Google Scholar](#) |

Markides CC, Williamson PJ. 1994. Related diversification, core competencies and corporate performance. *Strategic Management Journal*, Summer Special Issue 15: 149–165.

| [Web of Science®](#) | [Google Scholar](#) |

Montgomery CA, Hariharan S. 1991. Diversified entry by established firms. *Journal of Economic Behavior and Organization* 15(1): 71–89.

| [Web of Science®](#) | [Google Scholar](#) |

Montgomery CA, Wernerfelt B. 1988. Diversification, Ricardian rents, and Tobin's q. *Rand Journal of Economics* 19(4): 623–632.

Nayyar PR. 1993. Performance effects of information asymmetry and economies of scope in diversified service firms. *Academy of Management Journal* 36(1): 28–57.

| [CAS](#) | [PubMed](#) | [Web of Science®](#) | [Google Scholar](#) |

Nelson R, Winter S. 1982. *An Evolutionary Theory of Economic Change*. Harvard University Press: Cambridge, MA.

| [Web of Science®](#) | [Google Scholar](#) |

Palepu K. 1985. Diversification strategy, profit performance and entropy measure. *Strategic Management Journal* 6(3): 239–255.

| [Web of Science®](#) | [Google Scholar](#) |

Penrose ET. 1959. *The Theory of the Growth of the Firm*. Oxford University Press: New York.

| [Google Scholar](#) |

Peteraf MA. 1993. The cornerstones of competitive advantage: a resource-based view. *Strategic Management Journal* 14(3): 179–191.

| [Web of Science®](#) | [Google Scholar](#) |

Pinnington A, Morris T. 1996. Power and control in professional partnerships. *Long Range Planning* 29(6): 842–849.

| [Web of Science®](#) | [Google Scholar](#) |

Prescott EC, Visscher M. 1980. Organizational capital. *Journal of Political Economy* 88: 446–461.

| [Web of Science®](#) | [Google Scholar](#) |

Reed R, DeFillippi RJ. 1990. Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of Management Review* 15(1): 88–102.

| [Web of Science®](#) | [Google Scholar](#) |

Rubin PH. 1973. The expansion of firms. *Journal of Political Economy* 81(4): 936–949.

| [Web of Science®](#) | [Google Scholar](#) |

Rumelt RP. 1982. Diversification strategy and profitability. *Strategic Management Journal* 3(4): 359–369.

Rumelt RP. 1984. Towards a strategic theory of the firm. In *Competitive Strategic Management*, R Lamb (ed). Prentice-Hall: Englewood Cliffs, NJ; 556–570.

| [Google Scholar](#) |

Samuelson SS, Jaffe LJ. 1990. A statistical analysis of law firm profitability. *Boston University Law Review* 70(2): 185–211.

| [Web of Science®](#) | [Google Scholar](#) |

Sherer PD. 1995. Leveraging human assets in law firms: human capital structures and organizational capabilities. *Industrial and Labor Relations Review* 48(4): 671–691.

| [Web of Science®](#) | [Google Scholar](#) |

Sherer PD, Lee K. 2002. Institutional change in large law firms: a resource dependency and institutional perspective. *Academy of Management Journal* 45(1): 102–119.

| [Web of Science®](#) | [Google Scholar](#) |

Simon HA. 1991. Bounded rationality and organizational learning. *Organization Science* 2(1): 125–133.

| [Web of Science®](#) | [Google Scholar](#) |

Slater M. 1980. The managerial limitation to the growth of firms. *Economic Journal* 90(359): 520–528.

| [Web of Science®](#) | [Google Scholar](#) |

Snell SA, Dean JW. 1992. Integrated manufacturing and human resource management: a human capital perspective. *Academy of Management Journal* 35: 467–504.

| [Web of Science®](#) | [Google Scholar](#) |

Sommer B, Sommer R. 1991. *A Practical Guide to Behavioral Research: Tools and Techniques*. Oxford University Press: New York.

| [Google Scholar](#) |

Spar DL. 1997. Lawyers abroad: the internationalization of legal practice. *California Management Review* 39(3): 8–27.

| [Web of Science®](#) | [Google Scholar](#) |

Starbuck WH. 1993. Keeping a butterfly and an elephant in a house of cards: the elements of exceptional success. *Journal of Management Studies* 30(6): 885–921.

| [Web of Science®](#) | [Google Scholar](#) |

Stimpert JL, Duhaime IM. 1997. In the eyes of the beholder: conceptualization of relatedness held by the managers of large diversified firm. *Strategic Management Journal* 18(2): 111–125.

| [Web of Science®](#) | [Google Scholar](#) |

Teece DJ. 1980. Economics of scope and the scope of the enterprise. *Journal of Economic Behavior and Organization* 1: 223–247.

| [Web of Science®](#) | [Google Scholar](#) |

Teece DJ, Pisano G, Shuen A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal* 18(7): 509–533.

| [Web of Science®](#) | [Google Scholar](#) |

Teece DJ, Rumelt R, Dosi G, Winter S. 1994. Understanding corporate coherency: theory and evidence. *Journal of Economic Behavior and Organization* 23: 1–30.

| [Web of Science®](#) | [Google Scholar](#) |

Tolbert PS, Stern RN. 1991. Organizations of professionals: governance structures in large law firms. In *Research in the Sociology of Organizations*, Vol. 8, PS Tolbert, SR Barley (eds). JAI Press: Greenwich, CT; 97–117.

| [Google Scholar](#) |

Williamson EO. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. Free Press: New York.

| [Google Scholar](#) |

Citing Literature



134 N LaSalle St
Suite 1005, Chicago IL
60602, USA
+1 312 492 6224
sms@strategicmanagement.net

© 2025 Strategic Management Society

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)