STRATEGIC HUMAN RESOURCE MANAGEMENT AND FIRM PERFORMANCE: MEDIATING ROLE OF TRANSFORMATIONAL LEADERSHIP

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Abstract *Relationships between transformational leadership, Strategic Human Resource (HR) practices, and firm performance were studied using a sample of 121 managers from different organizations in India. Transformational leadership was measured by requesting respondents to judge how frequently each of the 20 statements fitted the CEO or the head of the organization. Strategic HR was measured by requesting respondents to indicate their opinions and feelings on the extent to which their organization was characterized by each of the 18 items listed. Firm performance was measured through six parameters—market share growth, sales growth, return on investment, return on assets, return on sales, overall performance—as perceived by the respondent. The score on each performance parameter was recorded in comparison to the major competitors of the organization during the previous year. Results show that strategic HR partially mediates the relationship between transformational leadership and performance.*

Keywords: *Strategic Human Resource Management, Firm Performance, Transformational Leadership.*

1. INTRODUCTION

With an increasing emphasis on people as the competitive edge of an organization, management is focusing on transformational leadership as a tool to achieve higher firm performance. In the new economy, Human Resource (HR) is actively participating as a strategic business partner as opposed to being merely a support function earlier. This paper explores the proposition that transformational leadership and strategic HR may work together to enhance organizational performance. The study reported in this paper is an attempt to see whether much of the effect of transformational leadership is mediated by strategic HR, in addition to any direct effect of transformational leadership on firm performance (Zhu, Chew, & Spangler, 2005).

2. STRATEGIC HR: ALIGNMENT OF HR STRATEGY WITH BUSINESS STRATEGY

The role of the HR function has changed a lot of late. HR professionals have come to be seen as business partners.

They are expected to contribute to the business strategy through their domain expertise (Conner & Ulrich, 1996).

It is important that the HR strategy of the organization be made on a similar orientation to ensure not only the organization's success but also its sustenance. For instance, there is a critical need for business leaders to assess their talent pool continually, to determine if the appropriate expertise needed to accomplish the business strategies is available within the organization. If not, where and how can the organization acquire the necessary skills? Another critical area is to identify the skills for developing the current employees internally to perform at the level necessary for the organization to be competitive. Does the organization need to change any of its current practices and policies in order to derive the intended behaviors of employees? How should performance be measured and what types of rewards should be given for the intended behaviors? These are few of the fundamental areas of effectively managing an organization and have to be addressed at the strategic planning stage. The HR function is the most experienced and knowledgeable in addressing these critical issues.

The integration of HR strategy into the business strategy

provides the basis for enabling the HR function to support and implement the strategic plan to achieve a competitive advantage. This strategy provides for the maximization of human capital, and a reduction of inefficient labor and financial investment, eventually to maximize profitability (Collins, & Clark, 2003; Ramlall 2003).

With the business community moving to a knowledge-based culture, understanding the key competencies needed for the organization to be successful is becoming critical. In a recent survey (Macaleer & Shanon, 2003), 252 CEOs were asked to name the critical threats to their businesses and industries. The results vary by company size but "shortage of key skills," "changing technology," "regulatory compliance issues," "environment, health and safety," and "changes in competition" were among five of the top 15 concerns, with "shortage of key skills" ranked as the top concern. Thus, to actualize the overused expression "people are our most important asset," HR manager must assume the role of strategic partner with the CEO and other top executives in a proactive way to ensure there is effective alignment of the overall business goals with the HR initiatives. Many authors (Macaleer & Shanon, 2003) have worked on the question: "Does HR planning improve business performance?" HR also helps foster the culture necessary to implement the strategy effectively (Tsui, Pearce, Porter, & Tripoli, 1997).

Organizations that align their HR and business strategies are more profitable. For HR strategies to enhance profits, they must be documented and integrated into the business strategy, they must include people practices and practices to deliver the business strategy across the organization, and the HR function must be considered a part of the leadership team that can influence the business (Steven, Anthony, Mark, & Brian, 1999).

To accomplish the alignment of HR with the business strategy, HR manager needs to spend time understanding the business strategy, competitors, technologies, and customers, to help the firm gain a competitive advantage using HR practices, to design a set of HR practices and activities that link with each other and link with the needs of the business, and to become more customer-focused (Wolfe, 1995).

The measurement of degree of HR alignment can determine whether the work of HR function is adding value to the business bottom line. Successful organizations align HR by first changing the paradigm by which they view the HR function. They stop seeing HR as a department with a budget, personnel, and tasks. Instead, they define it as an organization with resources, customers, and services to deliver. Then they set about finding out whether the „customers" are getting the „services" they expect. The line businesses are the "customers" and the "services" are the activities required to achieve organizational objectives (Chauhan & Chauhan, 2002).

Three theoretical perspectives dominate the strategic HR management (SHRM) literature: universalistic, contingency, and configurational. The universalistic perspective claims that there is a "best practice" approach to SHRM, with a set of HR practices to be identified that will improve performance. These "best practices" will be embodied as concrete and detailed HR techniques or practices; for example, there may be many techniques that will encourage sharing of information within an organization.

The contingency approach claims that to be effective, an organization's HR practices must be consistent with other aspects of the organization. The organization's strategy is generally considered the primary contingency factor. Human resource policies and practices must be consistent with the organization's strategy. Business performance will be improved when the right compatibility between business strategy and HR is achieved.

The configurational approach differs from the universalistic and contingency theories in being guided by a holistic approach to inquiry and assuming the system's assumption of finality. In general, configurational theories are concerned with how the pattern of multiple independent variables is related to a dependent variable rather than with how individual independent variables are related to the dependent variable. Configurational SHRM is concerned with the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals. The degree of alignment of HR strategy with business strategy is all about delivering sustainable improvements in business performance to achieve the strategic imperatives of the organization. Such a critical alignment of an organization's HR with its business strategies can be accomplished by focusing on four areas: 1) Building a strategic business partnership with key players, 2) Developing a strategic work force competency model, 3) Structuring the strategic curriculum, 4) Using the strategic competency model and the strategic curriculum to drive HR, and training and development activities (McDowell, 1996).

The Balanced Scorecard unveils an innovative „performance management system" that any company could use to focus and align their executive teams, business units, human resources, information technology, and financial resources on a unified overall strategy--much as businesses have traditionally employed financial management systems to track and guide the general fiscal direction of business. Companies like Mobil, CIGNA, and Chemical Retail Bank have effectively used this approach for nearly a decade, and in the process have presented an outline that other organizations could use to attain similar results (Kaplan & Norton, 2000).

Increasing the degree of alignment of HR strategy with business strategy involves: identifying the HR programs

that are aligned with corporate strategy as reflected in the corporate Balanced Scorecard; providing a Gap Analysis for HR work that is not meeting the expectations of internal customers; benchmarking HR work to ensure continuous improvement, promoting change and creativity; focusing the attention of HR staff on HR as well as organization-wide strategy; and bringing HR closer to the line functions of the organization.

This research attempts to identify the inter-relationships among the degree of alignment of HR strategy with business strategy, perception of employees on the same, business performance and the extent to which the CEO or the head of the organization is seen to be transformational.

3.   FIRM PERFORMANCE

Researchers studying strategic management have recommended multiple measures of firm performance. Recently, Singh (2003) used three measures of organizational performance namely, return of assets indicating profitability, growth in sales indicating how well customers accept the firm's products or services, and price cost margin. Paul and Anantharaman (2003) measured organizational performance along two dimensions: operational and financial. Operational performance was defined in terms of employee retention, employee productivity, product quality, speed of delivery, and operating cost. Financial performance was measured in terms of growth in sales, net profit, and return on investment.

In the past decade, researchers in the field of strategic HR have been trying to establish a relationship between HR practices and organizational objectives. However, in this whole effort, the factors connecting HR practices and organizational objectives remain relatively unexplored. The firm performance would be determined to some extent by the organizational commitment amongst its employees, which in turn can be enhanced by fostering positive perception of the employees towards the HR practices of the firm. Perceived organizational membership is an aggregate multidimensional construct reflecting employees' perceptions of their relationship with their employing organization (Masterson & Stamper, 2003).

Yperen (2003) demonstrated that the perceived profile of goal orientation within firms differed as a function of compensation system and organizational success. Performance-based compensation was related to employees' perceptions of a performance orientation in their firm. Employees working for successful firms that employed performance-based pay, however, perceived a relatively strong performance-approach orientation in their firms, whereas their counterparts working for unsuccessful firms perceived a relatively high performance-avoidance orientation. Furthermore, the findings show that successful

firms employing either performance-based pay or job-based pay were predominantly mastery oriented (Yperen, 2003).

An employee perceives a HR strategy in terms of returns with respect to the career growth, financial fulfillment, and security and job satisfaction. The prime objective of a business strategy is to maximize returns on business inputs. This is possible through optimum utilization of the commitment and skill sets of right workforce at the right time. Further, commitment of the employees depends on the employee perception towards the organization. HR strategy must be formed and practiced in such a way that desired business objectives are achieved by generating mutual trust and commitment. The employee perception towards HR strategy may influence the employee perception towards organization as a whole. This may influence the performance of the organization at large. This may further govern the performance parameters at individual and organizational level (Walston & Chadwick, 2003).

It has been widely accepted that human resource is an important means to sustainable competitive edge. An effective management of human capital beyond managing the physical capital may be the ultimate determinant of organizational performance. There is positive link between organizational outcome and high performance work practices. HR practices such as training, job design, compensation and incentives affect the speed of delivery, operating cost, sales, profits, return on assets, market value, and price-cost margin (Paul & Anantharaman, 2003; Rodriguez & Ventura, 2003; Singh, 2003).

With the increasing importance of the resource-based view of organizations, the implementation of strategic HR has gained prime importance. Even if the HR strategy is business-aligned, it is possible to achieve a positive effect on performance only if the employees perceive the HR practices to be aligned towards future strategies of the business. Perceptions of all employees involved in any strategic move or a major change effort are critical if their full participation is to be sustained. The employee perceptions about various HR practices such as job design and work structure affect organizational performance. Employee attitude towards work finally forms the link to organizational performance. Thus, employee perception about the HR practices is of prime importance.

Hypothesis 1: Strategic HR is positively related to firm performance.

4.   TRANSFORMATIONAL LEADERSHIP

Organizations need effective leaders to direct the efforts of the employees towards the organizational goals in the most efficient and controlled manner. With growing emphasis on

human resources of the organization, the leadership style should be such that it interests the organization from the performance perspective as well as the employees from the perspective of their individual growth and personal satisfaction. Leadership style can be transformational or transactional. Different authors refer to transformational model of leadership in various ways—excellence in leadership, leadership as distinguished from management, transforming or transformational leadership, charismatic leadership, and visionary leadership being some of them.

Burns (1978) defined transformational leadership as occurring when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality. The result of transforming leadership is a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents. Transformational leaders attempt and succeed in raising colleagues, subordinates, followers, clients, or constituencies to a greater awareness about the issues of consequence. They bring about change, innovation, and entrepreneurship. They recognize the need for revitalization, create a new vision, and institutionalize change, thereby facilitating corporate transformations. Transformational leaders build confidence in followers, encouraging them to reframe the future and question the tried and true, and coaching them to develop their full capabilities. Transformational leaders integrate creative insight, persistence and energy, intuition and sensitivity to the needs of others to forge the strategy-culture alloy for their organizations (Bass, 1998). Kuhnert and Lewis (1987) claimed that transformational leaders held a sense of moral obligation to the organization as an end value, which in turn was also adopted by subordinates. Transformational leadership raises the level of human conduct and ethical aspiration of both leader and follower. It alters and elevates the motives, values, and goals of followers through the vital teaching role of leadership, enabling leaders, and followers to be united in the pursuit of higher goals. Transformational leaders raise their followers up through levels of morality.

Transformational leadership consists of four interrelated dimensions: charisma, inspiration, individualized consideration, and intellectual stimulation (Bass, 1985). Charismatic leadership could be further divided into two factors—attributed charisma and idealized influence behavior. Charismatic leaders provide subordinates with more meaning for their work and arouse enthusiasm, excitement, emotional involvement, and commitment to the group's objectives. Inspirational leader behaviors include action-orientation, confidence building, and inspiring belief in the cause, which often leads followers to be committed, involved, loyal, and ready to exert extra effort. Intellectual stimulation helps employees emphasize rational considerations and challenge old assumptions.

Individualized consideration implies developing employees and coaching them. Behling and McFillen (1996) identified six attributes of transformational leadership: displaying empathy, dramatizing the mission, projecting self-assurance, enhancing the leader's image, assuring followers of their competency, providing followers with opportunities to experience success.

Fu, Tsui, Liu, and Li (2010) found that CEOs' values enhanced or attenuated the effect of transformational leadership on followers, depending on followers' reactions to the congruence or incongruence between leaders' internal values and their outward transformational behaviors. Self-enhancement values focusing on the leader's own happiness attenuated the effect, whereas self-transcendent values focusing on others' happiness accentuated the effect of CEOs' transformational behaviors on followers' commitment. Pillai, Schriesheim, and Williams (1999) found that leaders foster organizational commitment through the fairness of procedures they employ. Using a field survey of 577 employees from banking and financial sectors in China, India, and Kenya, Ochieng and Lawler (2003) examined the moderating effect of collectivism on the relationships between transformational leadership, work-related attitudes and perceptions of withdrawal behaviors. The results of the study support a moderating effect of collectivism on the relationship between transformational leadership and work-related outcomes, such as facets of job satisfaction, organizational commitment and perceptions of organizational withdrawal behaviors. MacKenzie, Podsakoff, and Rich (2001) validated not only the basic notion that transformational leadership influences salespeople to perform "above and beyond the call of duty" but also that transformational leader behaviors actually have stronger direct and indirect relationships with sales performance and organizational citizenship behavior than transactional leader behaviors.

Although transformational leadership is applicable to most organizational situations, the emergence and effectiveness of such leadership may be facilitated by some contexts and inhibited by others (Garg & Krishnan, 2003; Pawar & Eastman, 1997). Waldman, Ramirez, House, and Puranam (2001) found that CEO charismatic leadership enhanced performance only under conditions of perceived environmental uncertainty. Shamir and Howell (1999) argued that charismatic leaders are more likely to emerge and be effective when the tasks of organizational members are challenging and complex and require individual and group initiative, responsibility, creativity, and intense effort; and when performance goals are ambiguous and extrinsic, rewards cannot be strongly linked to performance.

A study by Howell and Frost (1989) concluded that individuals working under a charismatic leader had higher

task performance (in terms of the number of courses of action suggested and quality of performance), higher task satisfaction and lower role conflict and ambiguity in comparison to individuals working under considerate leaders or under structuring leaders. Transformational leadership will result ultimately in a higher level of satisfaction and effectiveness among the led (Bass, 1985). Transformational variables of charismatic leadership, individualized consideration, and intellectual stimulation add to the variance of subordinates' effectiveness, effort, and satisfaction explained by initiation and consideration (Seltzer & Bass, 1990). Leader's vision, which is an important characteristic of the transformational process (Bass, 1985), plays an important role in motivating followers. It affects employees' performance by inspiring them toward new goals and by raising their self-efficacy. Stewart (2006) did a meta-analysis of 93 studies and found that transformational leadership exhibited a consistently positive relationship with collective performance. Rowold and Laukamp (2009) provided support for the effect of charismatic leadership on objective performance. Bacha (2010) studied 100 French firms and found that CEOs who were perceived by the employees to be energetic leaders had an influence on organizational performance independently of the moderating effect of environmental uncertainty.

Hypothesis 2: Transformational leadership is positively related to firm performance.

Firms can create employee-based competencies through HR practices. HR practices are the primary means by which firms can manage the set of social relationships held by organizational employees. Transformational leaders adopt a long-term perspective. Rather than focusing solely on current needs of their followers or themselves, they also focus on future needs; rather than being concerned only with short-term problems and opportunities facing the firm, they also concern themselves with long-term issues; rather than viewing intra-and extra organizational factors as discrete, they view them from a holistic orientation (Dubinsky, Yammarino, Jolson, & Spangler, 1995).

Kirkpatrick and Locke (1996) found that the content of charismatic communication style (vision and task cues) led to higher performance quality and quantity. Leader's articulation of vision emphasizing quality improved followers' attitudes and perception and that task cues increased followers' task clarity and intellectual stimulation. Baum, Locke, and Kirkpatrick (1998) found additional support for this finding in their study. They concluded that vision and vision communication have positive effects upon organizational level performances. Jung, Chow, and Wu (2003) showed that there exists a positive link between transformational leadership and organizational innovation. In addition, transformational leadership has significant and positive relationships with both empowerment and an innovation-supporting organizational climate. Jung

and Sosik (2002) conducted a study to examine whether transformational leadership increases group effectiveness by empowering followers to perform their job independently from the leader, highlights the importance of cooperation in performing collective tasks, and realigns followers' values to create a more cohesive group. Results indicated that transformational leadership was positively related to empowerment, group cohesiveness, and group effectiveness. Empowerment was positively related to collective-efficacy, which in turn was positively related to group members' perceived group effectiveness. Nandal and Krishnan (2000) found that three of the five factors of charismatic leadership were positively related to lack of role ambiguity, which in turn was positively related to self-efficacy.

Transformational leadership involves creating a vision and communicating it to followers. Human resource management plays a critical role in this communication process between the leader and the followers. For the vision to become a reality, the leader has to develop and rely on HR practices that are aligned with the vision. Strategic HR that is aligned with the vision will provide followers with a blueprint on how to achieve the vision. Zhu et al. (2005) found that human-capital-enhancing human resource management fully mediated the relationship between CEO transformational leadership and subjective assessment of organizational outcomes. Sarros, Cooper, and Santora (2008) showed that a competitive, performance-oriented organizational culture mediates the relationship between transformational leadership and climate for organizational innovation.

Hypothesis 3: Transformational leadership is positively correlated with Strategic HR.

Hypothesis 4: Strategic HR mediates the relationship between transformational leadership and firm performance.

5. METHOD

The data for the study were collected through email or a contact from different firms operating in India in various business domains such as manufacturing, banks, consultancy firms, software firms, technology firms, airlines, petrochemicals, pharmaceuticals, insurance, and others. The sample of the study included 121 managers from different organizations. Respondents had an average age of 30 years. There were 112 male and 9 female respondents. The designations of the respondents were Management Trainee, Manager, Deputy Manager, Senior Manager, Executive Officer, Consultants, Analyst, Engineer, or Software Programmer. Their work experience ranged from 1 year to 5 years in majority of cases. The average leader-follower relationship duration was 2.8 years.

The data were collected through a questionnaire that

Table 1: Descriptive Statistics and Correlations

		M	SD	1	2	3
1.	Transformational leadership	2.70	0.64	(0.96)		
2.	Strategic HR	3.78	1.06	.80	(0.95)	
3.	Firm performance	1.20	0.61	.54	.56	(0.92)

N = 121. Standardized Cronbach coefficient alpha is in parenthesis along the diagonal. $p < 0.001$ for all correlations.

measured the three variables—transformational leadership, strategic HR, and firm performance. Transformational leadership was measured by the 20-items taken from the Multifactor Leadership Questionnaire (Bass & Avolio, 1995). Each of the five dimensions of transformational leadership—idealized influence (attributed), idealized influence (behavior), inspirational motivation, intellectual stimulation, and individualized consideration—was measured using four items. Respondents were requested to judge how frequently each statement fitted the CEO or the head of the organization. Responses were recorded on a five-point scale (0 = Not at all; 1 = Once in a while; 2 = Sometimes; 3 = Fairly often; 4 = Frequently, if not always).

For strategic HR, we included the 18 items of Singh (2003). Respondents were requested to indicate their opinions and feelings on the extent to which their organization was characterized by each of the items listed. Responses were recorded on a six-point scale (1 = Not at all; 2 = To a very little extent; 3 = To a partial extent; 4 = To a large extent; 5 = To a great extent; and 6 = To a very great extent). The questionnaire items are included in the appendix. Firm performance was measured through six parameters—market share growth, sales growth, return on investment, return on assets, return on sales, overall performance—as perceived by the respondent. The score on each performance parameter was recorded in comparison to the major competitors of the organization during the previous year. Responses were

recorded on a three-point scale (0 = Lower, 1 = Equal, 2 = Higher).

The Cronbach coefficient alpha for each factor and the correlation between each pair of factors of transformational leadership (attributed charisma, idealized influence behavior, inspirational motivation, individualized consideration, and intellectual stimulation) was greater than 0.75. Therefore, we took the mean of the 20 items to arrive at an overall transformational leadership score.

6. RESULTS

Table 1 presents the means, standard deviations, standardized Cronbach coefficient alphas, and correlations between all the variables in the study. Strategic HR was significantly positively related to firm performance and transformational leadership was significantly positively related to strategic HR and firm performance. This supports our Hypotheses 1, 2, and 3.

According to Baron and Kenny (1986), to test for mediation, one should estimate the following three regression equations: first, regressing the mediator on the independent variable; second, regressing the dependent variable on the independent variable; and third, regressing the dependent variable on both the independent variable and the mediator. To establish mediation, the following conditions must hold:

Table 2: Regression Analyses for Testing Mediation

	Dependent variable	Independent variable	Parameter estimate	t	Model R-Square	Model F
1.	Strategic HR	Transformational leadership	1.33	***14.69	0.64	***215.79
2.	Performance	Transformational leadership	0.52	***6.97	0.29	***48.56
3.	Performance	Transformational leadership	0.24	*2.03		
		Strategic HR	0.20	**2.80	0.33	***29.58

N = 121. * = $p < .05$. ** = $p < .01$. *** = $p < .001$.

Table 3: Regression Analysis Using Forward Option

	Dependent Variable	Independent Variable	Parameter Estimate	F	Model R-Square	Model F
1.	Performance	Strategic HR	0.32	***53.66	0.31	***53.66
2.	Performance	Strategic HR	0.20	**7.82		
		Transformational leadership	0.24	*4.11	0.33	***29.58

N = 121. * = p < .05. ** = p < .01. *** = p < .001.

first, the independent variable must affect the mediator in the first equation; second, the independent variable must be shown to affect the dependent variable in the second equation; and third, the mediator must affect the dependent variable in the third equation. If these conditions all hold in the predicted direction, then the effect of the independent variable on the dependent variable must be less in the third equation than in the second. Perfect mediation holds if the independent variable has no effect when the mediator is controlled. Table 2 presents the results of these regressions.

Transformational leadership affected strategic HR in the first equation. Transformational leadership affected firm performance in the second equation. Strategic HR affected firm performance in the third equation. Thus, all the three conditions outlined by Baron and Kenny (1986) were satisfied. The effect of transformational leadership on firm performance in the third equation is less than that in the second equation, thus providing evidence for partial mediation.

We conducted Sobel's test to see whether the indirect effect of transformational leadership on firm performance via strategic HR (mediator) was significantly different from zero. The Sobel test statistic was 2.75 (p < 0.01). This supports our Hypothesis 4 that strategic HR mediates the relationship between transformational leadership and firm performance (Baron & Kenny, 1986; Cohen, Cohen, West, & Aiken, 2003).

Then we used regression analysis with the forward-selection technique (Judge, Griffiths, Hill, Lutkepohl, & Lee, 1985) to see whether strategic HR is better than transformational leadership in predicting firm performance. The forward-selection technique begins with no variables in the model. For each independent variable, it calculates F statistics that reflects the variable's contribution to the model if it is included. The variable that would produce the largest F statistic is added to the model. The evaluation process is repeated with the variables remaining outside the model. Once a variable is entered into the model, it stays. Thus, variables are added one by one to the model until no remaining variable produces a significant F statistic. We modeled firm

strategy as dependent variable against transformational leadership and strategic HR as independent variables, using the forward option. Results are presented in Table 3.

Strategic HR was the better predictor of firm performance and therefore entered the model first and explained 31% variance in firm performance. Transformational leadership entered the model in the second step and explained an additional 2% variance in firm performance.

7. DISCUSSION

The results of the study have shown that there is a significantly positive correlation amongst transformational leadership, strategic HR, and firm performance. In addition, strategic HR mediates the relationship between transformational leadership and firm performance. The findings of this study reinforce the results from earlier studies that the higher the extent of alignment of HR with business strategy, the better the firm would perform, as the efforts from HR would act synergistically with the other business functions. This study also adds a third dimension of the transformational leadership to the discussion.

A transformational leader goes beyond the characteristics of a transactional leader who relies on rewards and punishments. A firm with transformational leadership would not only focus on targeting the business objectives but also emphasize on developing employees, coaching them, inspiring belief in them, and aligning their values towards a higher goal. Transformational leadership would enhance alignment of HR with the strategic goals of the organization.

According to Bass (1985), transformational leaders provide subordinates with more meaning for their work and arouse enthusiasm, excitement, emotional involvement, and commitment to the group's objectives. However, the effect of transformational leadership on firm performance becomes weaker when controlling for strategic HR. This implies that for any firm to perform better it is very important for the systems to be aligned with each other; in particular, the business and HR strategies should be mutually aligned and transformational leadership should aim at achieving this.

The findings suggest that, in order to better communicate the vision of leaders and to carry out their decisions, in addition to influencing employees directly through charisma, etc., transformational leaders are likely to create HR practices that are aligned with the strategic goals of the business. These practices include staffing, training, performance appraisal, and compensation systems to motivate and empower their employees. In the process of creating strategically aligned HR practices, transformational leaders tend to listen attentively and pay attention to followers' individual needs for achievement and growth (individualized consideration) and try to satisfy their needs (Zhu et al., 2005).

8.   LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Both transformational leadership and strategic HR were measured by surveying the same employee. The same source being used for measuring both the variables could have caused some measurement error. There is also a possibility that the duration of relationship between the respondent and the leader could have been an influencing factor on the responses. For example, a six-month subordinate-manager relationship would not have experienced enough instances to bring forward all the transformational leadership traits asked in the questionnaire. In such a case, the manager's traits become a function of period of relationship with the subordinate. Another limitation is that for a recently joined employee or an employee who rarely interacted with the leader, the responses would be a function of general perception and not personal experience. Such limitations could be removed by picking up more specific samples coupled with a more detailed questionnaire. It would also have been a more detailed assessment of firm performance if it were possible to map the recorded financial performances for each firm and tally it with the employee perception of the firm performance.

Future research might benefit from extending this study using specific performance parameters like sales growth and return on investment, and find out the extent of their relationship with the presence of transformational leadership and strategic HR in the firm. In addition, the study can be carried out in specific business sectors like IT or manufacturing and the impact of each leadership element on firm performance can be studied thereby making the findings more relevant.

Longitudinal research assessing the extent to which transformational leaders themselves are actually transformed because of strategic HR can also be a promising direction for future researchers. It can be a good idea to focus on a comparative study of transactional leadership and transformational leadership vis-à-vis strategic HR. More studies are needed to look at the effect of transformational leadership on different performance aspects. Such studies

would greatly contribute to the efforts made to quantify HR aspects and yield better returns from investment in strategic HR.

9.   CONCLUSION

In the present highly competitive world, leaders make a huge difference as they directly influence the people—a sustainable competitive advantage in the new economy. For the performance-driven corporate world, it has become imperative to strike a balance between it being people-focused and being bottom line driven. Thus, transformational leadership is increasingly gaining importance amongst the practicing managers across the world. Such a leadership style is a win-win situation enabling a manager to achieve the business goals on one hand and developing employees as human beings on the other hand. An offshoot of transformational leadership can be seen in the emergence of Strategic HR. Successful leaders across the world, have lately been emphasizing HR to become a business partner. This study was an attempt to study how transformational leadership and strategic HR are related to the performance of a firm. Earlier studies have emphasized that strategic HR can positively affect firm performance. This study took these ideas further and added a third dimension of transformational leadership and showed that strategic HR mediated the relationship between transformational leadership and firm performance. Transformational leadership and strategic HR align employee aspirations and expectations with the business objectives and instill within them an organizational commitment so that they tend to give their best and hence help enhance firm performance overall. This should be well understood and appreciated by organizations to succeed in the future.

10.   APPENDIX STRATEGIC HR QUESTIONNAIRE ITEMS

1. Existence of a formal written HR plan based on the strategic needs of the firm

2. Involvement of the HR head/ official in the strategic business planning process

3. Clear delineation of employee competencies required for the implementation of chosen business strategy/ies

4. Extent to which required employee competencies are reflected in recruitment and selection of potential candidates

5. Extent to which HR function is involved early in selection of potential candidates

6. Existence and measurement of customer satisfaction of hiring process

7. Existence of evaluation practices that seek out and reward knowledge management practices

8. Average change in performance appraisal over time

9. Existence of effective performance appraisal process for dealing with poor performers

10. Existence of compensation practice linked to firm's goal and objectives

11. Compensation practice that rewards strategically focused competencies, motivations and employee behaviors

12. Compensation practice that attracts, retains and motivates high performers

13. Existence of strategically needed employee development and advancement opportunities

14. Existence of training methods tailored to employee competency growth

15. HR function's involvement in developing necessary strategic leadership competencies

16. Existence of diversity of race and gender by job category

17. Existence of cross-functional teamwork

18. Existence of employees with experience outside their current job responsibility or function

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