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Extending The Human Capital Theory Of Career Success: An Empirical Test In The Ecuadorian Context

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Extending the Human Capital Theory of Career Success:
An Empirical Test in the Ecuadorian Context

A Dissertation
Presented for the
Doctor of Philosophy
Degree
University of Mississippi

by
MARIO J. HAYEK

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ABSTRACT

Human capital theory has traditionally been used as the primary explanation for objective career success. However, inconsistent results of the human capital-performance evaluation-objective career success relationships, as proposed in human capital theory, motivated this dissertation to further develop the theory by including economic, managerial, and institutional facets. These facets include not only an economic rational perspective, but also a managerial component that considers organizational policies and practices, as well as an institutional component that considers how environmental pressures influence objective career success. Also, boundary conditions for the proposed model are hypothesized explaining how the relationships between the constructs differ for managers and non-managers. The hypothesized relationships are tested in a Latin American context using rich proprietary data.

The results of the study lend support for the managerial and institutional facets of the theory of human capital of career success. On the other hand, the economic facet was not supported due to the non-significant relationships between the human capital components and performance evaluation scores. Also, support was found for the boundary condition, rank, on performance evaluations. This finding suggests that performance evaluations are a more important consideration for the objective career success of non-managers than for managers in environments with strong socio-cultural and institutional pressures such as those found in Latin America.
DEDICATION

This dissertation is dedicated to my parents, Edmond and Marie, who nurtured and motivated my intellectual curiosity and offered me a solid ethical and educational foundation that allowed me to succeed in this challenging undertaking. I also dedicate this dissertation to my wife, Caroline, and children, Nicole, Paula, and Alex, who offered me unconditional support and affection during this journey of self-fulfillment. This dissertation is testimony to how love, unity, and perseverance can overcome fear, doubt, and insecurity in the pursuit of a dream. I sincerely thank all of you, for this accomplishment is the fruit of our communal effort.
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My desire and perseverance alone could not have projected me to where I stand today. Many people influenced the journey and the outcome of a once distant dream of reaching the cusped of my profession and what I hope is the beginning of a life of continuing learning and contributing to academe.

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CHAPTER 1
INTRODUCTION

This dissertation examines the factors that may influence individual career success in the context of socio-cultural and institutional pressures. Particular theoretical and empirical emphases are placed on the potential influences of individual human capital components (i.e., education, experience, and training), and on performance evaluations. The theoretical frame used for the examination is human capital theory in the form that includes its economic, managerial, and institutional facets. Based on this theoretical frame, a formal model is proposed depicting performance evaluation as a partial mediator of the relationships between human capital components and objective career success operationalized as pay. This model is empirically tested in the context of a major Ecuadorian financial services company using a cross-sectional design with subsequent path analyses.

This dissertation is organized in five chapters. Chapter One focuses on the formulation of propositions grounded in the economic, managerial, and institutional facets of the human capital theory of career success. Based on these propositions, a formal model is developed and specific contributions of this theory-based model are outlined. In Chapter Two, the descriptions of specific constructs which are components of the proposed theoretical model, are provided along with the development of hypothesized relationships among these variables. In Chapter Three, the theoretical model is tested using a cross-sectional design and structural equation modeling, and the results obtained from the analysis are presented. Chapter Four offers an interpretation of the
empirical results, and Chapter Five offers theoretical and practical implications of the findings as well as directions for future research.

This research contributes to the career success literature in several ways. The first contribution is the extension of the theory of human capital of career success to include not only the rational, economic facet but also a managerial facet in terms of managerial influence on organizational policies and practices, and an institutional facet that considers managerial responses to contextual pressures. This extension of theory addresses how these three facets provide complementary explanations for the relationships between human capital constructs and career success outcomes. This contribution is significant because existing explanations of how career success is influenced by human capital do not combine economic, managerial, and institutional facets of human capital theory.

The second contribution of this study is a rare use of secondary data from a Latin American country. This contribution is unique because career success research in a Latin American context is virtually non-existent. The socio-cultural and institutional contexts of Latin American countries differ from the contexts of other countries in that Latin American countries share a “common Roman law heritage, a common Iberian colonial past, and present day patterns of social organization” (Rosenn, 1988, p. 128). Furthermore, individuals living in Latin American countries share a strong sense of dignity, in-group collectivism, and paternalistic behaviors (House, Hanges, Javidan, Dorfman, & Gupta, 2004). These unique contextual factors may affect performance evaluations and career success in organizations located in Latin American countries.

The third contribution of this dissertation is the appropriateness of the data used for
theory testing in this dissertation. The detailed proprietary data on training and performance evaluation, which was obtained from a large financial services firm, makes this research different from previous studies of this type that mostly relied on large national survey databases of self-reported data collected in other continents (Gomez-Mejia, Berrone, & Franco-Santos, 2010). Self-report measures, used in these studies, have the drawback of relying on individuals’ accuracy of remembering their training and performance (Barron, Berger, & Black, 1994). Also, a major assumption of these studies is that individuals were willing to provide accurate information (Bing, Stewart, Davison, Green, McIntyre, & James, 2007). Even when studies incorporate secondary data that are structured into databases, there is a major concern that samples taken from these databases might suffer from inconsistency of measures used across organizations. This inconsistency is in particular likely to apply to measures of performance evaluations and training collected across firms that use different procedures for performance evaluations. In contrast, objective (i.e., non-self-report) data collected from a single firm, as is the case in this dissertation, offers two specific benefits for career success research which are: 1) a reduction in ambiguity regarding the accuracy of the reported information, and 2) consistency in the procedures/ metrics used within a single organization as records of objective career success are typically kept in human resource departments and are commonly standardized across units within the organization (Heslin, 2005). These benefits are important because very few studies have analyzed the associations of human capital constructs in relation to pay outcome using a proprietary data set from a firm (Bartel, 1995; Krueger & Rouse, 1998). Furthermore, none of these studies was conducted in the context of a developing or emerging country, as is the case of this dissertation.
The fourth contribution is the examination of the boundary condition for the proposed extended human capital theory of career success. In particular, the theoretically relevant variable, rank (i.e., managers and non-managers), is examined in terms of its potential to engender a boundary condition for the proposed extension of the theory of human capital of career success. This contribution is important as it specifies the conditions under which the theory applies and therefore adding to the predictive accuracy of the theory (Gray & Cooper, 2010).

Overall, the research presented in this dissertation fills the need for more comprehensive theorizing and empirical testing of the relationships among human capital, performance evaluation, and career success. Specifically, the aim is to theoretically explain and empirically test the mechanisms by which human capital contributes to objective career success in terms of pay is accomplished in this dissertation by (a) the extension of the human capital theory of career success across its key facets, and through (b) its testing in a specific South American institutional context (i.e., Ecuador) using unique data (i.e., proprietary non-self-report data).

**Theoretical Development and Formulation of Research Propositions**

The twenty-first century has brought about significant environmental changes driven by radical technological innovation, globalization, and hypercompetition (Cascio & Aguinis, 2008). These changes have forced organizations to shift away from bureaucratic and vertical, hierarchical organizational structures to more organic and horizontal, flatter structures (Gomez-Mejia, Berrone, & Franco-Santos, 2010). This structural flattening has required employees to accumulate human capital in order for them to be highly employable (Pulakos, Arad, Donovan, & Plamondon, 2000) in organizations that strive to stay nimble and competitive (Cascio & Aguinis, 2008). The flattening has therefore transformed the way scholars and practitioners...
understand the traditional concept of career success (Heslin, 2005), as the processes of organizational delayering, downsizing, and outsourcing have limited the desirable options of achieving career success through hierarchical progression of promotion (Evans, Gunz, & Jalland, 1997; Hall, 2002; Reitman & Schneer, 2003). Therefore, as the organizational structure and processes have been changing, so has the role of human capital become salient in achieving career success. To capture and study that salience, the influence of human capital on career success is examined in this dissertation using the lens of three facets of human capital theory: economic, managerial, and institutional.

**Human Capital Theory of Career Success: Economic Facet**

Career success has been defined as work related outcomes gained over a lifetime of work experiences (London & Stumpf, 1982; Judge & Bretz, 1994; Seibert, Crant, & Kraimer, 1999; Sullivan & Baruch, 2009). Achieving career success is important from both individual and organizational standpoints (Feldman, 1989; 2002). From an individual standpoint, achieving career success may lead to the improvement in social status, job satisfaction, health, and an overall positive emotional state (Becker, 1993; Judge, Cable, Boudreau, & Bretz, 1995). From an organizational standpoint, career success is associated with organizationally significant outcomes such as higher productivity, citizenship behaviors, lower turnover, and ultimately a higher return on investment per employee (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

Career success is objective when it reflects observable achievements of an individual, such as pay and/or promotion (Arthur, Khapova & Wilderom, 2005; Judge & Bretz, 1994; Judge, Cable, Boudreau, & Bretz, 1995). Objective career success is different from subjective career
success, which reflects self-perceived individual accomplishments during one’s career (Hall & Mirvis, 1996; Heslin, 2005; Ng, Eby, Sorensen, & Feldman, 2005; Abele & Wiese, 2008). This distinction is important because empirical evidence suggest that factors influencing subjective career success are commonly different from those that lead to objective career success (Arnold & Cohen, 2008). Specifically, human capital and socio-demographic antecedents have a stronger relationship with objective career success while organizational sponsorship (i.e., supervisor support, organizational resources) and stable individual traits (i.e., neuroticism, conscientiousness) are stronger predictors of subjective career success (Ng, Eby, Sorensen, & Feldman, 2005).

Empirical evidence suggests that human capital is one of the main drivers of objective career success (see Ng, Eby, Sorensen, & Feldman, 2005). In particular, labor economists have used human capital theory as one of the most powerful explanations as to why pay increases over time (Williams, 2009). Human capital theory suggests that a diverse set of economic benefits can be accrued from the accumulation of individual knowledge, skills, and abilities (Becker, 1964). The roots of human capital theory originate from Adam Smith (1776) who suggested that investments in acquiring abilities is the primary means of generating revenues (Zula & Chermack, 2007). The concept of the investment in human capital was later theoretically developed and empirically tested in the studies conducted by leading economic scholars (Zula & Chermack, 2007). These scholars argued that the production model should include human capital in addition to physical capital, labor, land, and entrepreneurship (Nafukho, Hairston, & Brooks, 2004). Primarily, the development of human capital theory has been pursued by Becker, who is considered to be the founding father of the ‘economics of education’ as a distinct research field
The fundamental assumption of human capital theory is that individuals rationally weigh the benefits and costs of investing in their education and training in such a way as to maximize their objective career success (Becker, 1993). According to this assumption, education and training are the most important investments in human capital. People are motivated to invest in their education because they expect such investment to result in greater career success, while organizations are motivated to invest in employee training with the expectation that this investment will increase their productivity and profitability. From the overall economic perspective, the value of the investment in human capital is equal to the net present value of the future expected cash flows (Becker, 1962). In economic terms, “profit maximizing firms compete for utility maximizing workers, and the expected lifetime compensation of a worker with a given set of observed characteristics is equal to the expected lifetime productivity of a randomly selected worker with those characteristics” (Weiss, 1995, p. 136). In summary, human capital theory explains variation in income generated from diverse forms of human capital investments such as education and training (Becker, 1962).

Development of human capital through training, education, and tacit knowledge (i.e., tenure) are likely to lead to beneficial outcomes such as career success (Fang, Zikic, & Novicevic, 2009). Development through training can be in the form of general or specific training. General training is defined as training that yields generic knowledge, skills, and abilities, and can be used and valued by other organizations beyond the one providing the training (Becker, 1962). In contrast, specific training involves developing knowledge that is uniquely beneficial to the organization that is offering the training. In his later work, Becker
(1993) broadened the scope of organizations that may benefit from specific training beyond the particular organization offering the training to other firms within the same industry. Therefore, specific training may yield a set of skills that could be transferable across jobs within a specific industry. In this case, workers are compensated for skills that are not general or firm specific but rather industry specific (Neal, 1995; Parent, 2000). The distinction between general and specific training has potential implications for employee mobility. Specifically, employees with greater general training will become more marketable in the labor market and therefore may not develop a sense of loyalty or attachment to the firm offering the training. In contrast, when firm specific training is offered to an employee, that individual will be less likely to turnover as his or her skills are less marketable to other firms while his or her value to the current employer will be enhanced (Becker, 1993).

In addition to developing their human capital through training, individuals may develop their human capital through schooling (i.e., formal education), experience, or tenure (Becker, 1993). Complementarity of these sources of human capital development is supported by past research that suggests that human capital is the result of the development of ability, education, and skills (Blundell, Dearden, Meghir, & Sianesi, 1999).

Human capital theory suggests that formal education, specific training, and experience accumulated by working in the firm over time (i.e., tenure) enhance not only individual performance but also individual career success in the form of increased compensation. Therefore, investments in human capital offer benefits to the individual in terms of objective career success (Becker, 1964).

Proposition 1: Investments in different components of human capital are related to objective career success.
Human Capital Theory of Career Success: Managerial Facet

The assumptions of human capital theory are perfect competition for jobs, no barriers to entry into particular occupations, as well as that pay differentials are due to differences in productivity (Blundell, Dearden, Meghir, & Sianesi, 1999). These assumptions reflect the economic rationality that underlies the economic facet of human capital theory, which proposes that investing in human capital is likely to translate into greater objective career success through properly evaluated job performance. However, this perspective alone is idealistic, as it fails to consider that: 1) employees may not be motivated to use all of their human capital for organizational purposes, and 2) organizations have the discretion to create policies and practices that may favorably or unfavorably influence how individuals use their human capital. Therefore, the managerial facet of human capital reflects the way organizational policies and practices may add what economists would call a “behavioral” spin to the traditional rational economic model of human capital.

Performance evaluation is one of the most important human resource tools, which is used as a means by which organizations leverage their human capital (Chiang & Birtch, 2010). Effective evaluations have been shown to lead to numerous positive outcomes such as greater employee productivity and quality, job satisfaction, commitment, and trust (Ghorpade, Chen, & Caggiano, 1995; Guthire, 2001; Kuvaas, 2008; Mayer & Davis, 1999; Pettijohn, Pettijohn, & Amico, 2001). However, only in ideal cases, performance evaluations offer an “objective, rational, and systematic way for organizations to manage workforce performance” (Chiang & Birtch, 2010, p. 3).

The managerial facet of human capital theory complements the economic facet by
suggesting that highly skilled or trained employees may exhibit behavior of withdrawing their maximum rational effort when their performance is not appropriately evaluated and rewarded. In other words, although they possess individual knowledge, skills, and abilities developed through education, training, and tenure, these employees may perform below their potential because they use their time and talent at their own discretion (Bailey, 1993). Therefore, the managerial facet of human capital theory states that the human resource practice of performance evaluation needs to be designed appropriately to affect employee motivation positively by encouraging employees to work both harder and smarter for the benefit of the organization and to achieve objective career success. Based on this managerial facet, one’s on-the-job performance is hypothesized to be a function of his or her ability, knowledge, and skills, as well as of effective performance-appraisal policies and practices that induce motivation for superior performance (Huselid, 1995).

Pay, which is a proxy for objective career success, is a desired correlate of performance evaluations that has received great attention of human resource (HR) professionals. The HR policy of linking pay to performance evaluations has been referred to as pay-for-performance (PFP). While the debate whether pay is a sufficient motivator to influence adequate performance is not over, several meta-analyses have supported the pay-for-performance model (e.g. Jenkins, Mitra, Gupta, & Shaw, 1998; Locke, Feren, McCaleb, & Denny, 1980). Furthermore, most firms seem to be using some form of PFP (Rynes, Gerhart, & Parks, 2005), and the tendency for firms to use PFP has been growing (Heneman, Ledford, & Gresham, 2000).

The pay-for-performance literature suggests that the influence of this type of HR policy on both motivation and performance is through incentive effects and sorting effects. Research suggests that rewards that are proximal to the behaviors are rewarding and tend to be effective
motivators. Pay is considered to be a proximal reward and therefore an efficient form of incentive. In contrast, sorting effects suggest that individuals are either attracted to or repelled from different pay systems. Therefore, a pay-for-performance reward structure may attract individuals with a particular profile, while repelling others (McNatt, Glassman, & McAfee, 2007). Based on the managerial facet of human capital theory, the extent to which the pay-for-performance pay structure will leverage human capital and motivate individuals to make use of their knowledge, skills, and abilities acquired through education and training will depend on the effectiveness of performance evaluation/appraisal policies and practices adopted by managers.

**Proposition 2: When a pay-for-performance system is implemented, performance evaluation scores explain the relationship between human capital components and objective career success.**

**Human Capital Theory of Career Success: Institutional Facet**

The institutional facet of human capital theory complements the economic and managerial facets by addressing political, socio-cultural, and institutional pressures that managers face. In other words, while the economic and managerial facets of human capital theory provide an explanation for the mechanisms by which investments in human capital, along with the appropriately designed performance evaluation policies and practices, increases performance and eventually objective career success, these facets do not consider the political, socio-cultural, and institutional context in which the policies and practices affecting performance evaluations and objective career success are embedded. Specifically, the implementation of HR policies and practices of performance evaluation and compensation that managers’ design and use is often constrained by formal and informal institutional pressures.

The institutional facet of human capital theory posits that performance evaluation and pay
practices are constrained by the environments in which they are embedded and therefore this socially thick view of career success may be as explanatory as economic or managerial views. This institutional facet proposes that a firm’s performance evaluation and pay practices become more similar (i.e., isomorphic) with the practices of other companies operating in the firm’s field, as the firm seeks in this way legitimacy of its stakeholders in order to improve its possibilities of survival under competitive and institutional pressures (Meyer & Rowan, 1977). The specific institutional pressures that influence a firm’s HR practices to become isomorphic with other firms’ HR practices are: coercive isomorphism, mimetic processes, and normative pressures (DiMaggio & Powell, 1983). Coercive isomorphism results from formal and informal pressures driven by resource dependency, cultural expectations, and regulations affecting the HR function. Mimetic processes result from benefits of imitation or modeling of HR practices in terms of reduced uncertainty. Finally, normative pressures stem from professionalization of HR personnel and the formation of their professional networks that favor benchmarking.

Managers, facing coercive, mimetic, and normative institutional pressures, may differ in their choices of strategic responses to these pressures (Oliver, 1991). In particular, managers’ choices may vary from passive to proactive responses towards these pressures. Therefore, whether HR managers respond passively or proactively to institutional pressures is likely to impact the strength of the relationships among human capital, performance evaluations, and career success.

Most common responses to institutional pressures are based on the labor market data collected by consulting firms because their data reveal practices that are referent for the firm’s legitimacy (Gomez-Mejia, Berrone, & Franco-Santos, 2010; York & Brown, 2008). The typical
practices serve as a referent point to select strategic responses in terms of pay policies which may be to lead, lag, or meet pay relative to the referent companies. A general assumption is that the leading firms prefer to pay higher salaries in order to recruit higher quality personnel, and lower their turnover (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

Human resource practices of pay that are based on rewarding for social standing and reputation have been referred to as symbolic HR practices. These practices are often the result of conventions imposed by the sector in which the company operates (Meyer & Rowan, 1977; Zucker, 1987; Fernandez-Alees, Cuevas-Rodriguez, & Valle-Cabrera, 2006). Managerial choice of specific HR practices is symbolic and conventional because it is often influenced by cultural values. While national culture significantly affects how people perceive their work and behave in their work environment, this line of research has been largely overlooked in the career literature (Heslin, 2005). Ferris and colleagues (2008, p. 147) suggest that performance evaluation system “like other mechanisms of accountability, is subject to lapses and ineffectiveness, particularly when all the various influences that operate on such mechanisms are not fully considered and investigated… performance evaluation systems, as accountability mechanisms, are embedded within complex social, emotional, cognitive, political, and relationship contexts, which need to be understood in order to adequately interpret the results or outcomes derived from such systems.” Due to this cultural embeddedness of performance evaluations and career success in terms of pay (Inkson, Khapova, and Parker, 2007), cultural influence has recently attracted growing interest from researchers (Kats, Van Emmerik, Blenkinsopp, & Khapova, 2010).

We know little about this cultural influence in developing countries because most published research on career success has been based on studies conducted in the United States or
other Western developed countries (Counsell, 2002; Pringle & Mallon, 2003). Therefore, it is highly important to understand how larger societal processes and cultural influences (Khapova, Arthur, & Wilderom, 2007) shape HR policies and perceptions of career success in developing countries (e.g. Baruck, 2004; Thomas & Inkson, 2006). More specifically, it is important to identify how cultural influence is mapped on performance evaluations and objective career success in the context of developing countries (Khapova, Vinkenburg, & Arnold, 2009).

Due to cultural influence, managerial strategic responses in terms of adopted HR policies and practices may be specific in developing countries (Lawler et al., 2010). Designing HR policies and practices to match the particular cultures in which organizations are embedded, may be a critical factor influencing career success (Newman & Nollen, 1996). “The unique norms, values, and beliefs inherent in different cultures affect the way employees are motivated and controlled as well as their equity, expectancy, and justice perceptions. Specifically, an appraisal architecture developed and regarded as effective in one country may not be suitable on another cultural setting” (Chiang & Birtch, 2010, p. 4). Therefore, performance evaluation is likely to be affected by cultural influences because the performance appraisal process is greatly influenced by norms, values, and beliefs espoused by a particular society (Chiang & Birtch, 2010). For example, culture may influence the extent to which organizational politics are acceptable and/ or tolerated.

Institutional pressures may influence objective career success through the policies and practices adopted by HR managers (Gomez-Mejia, Berrone, & Franco-Santos, 2010). For example, HR managers are likely to formulate pay strategies that are isomorphic to those used by their competitors. Furthermore, Coombs and Rosse (1992) suggest that “compensation practices
are often based on customs, imitation of other firms, administrative convenience, and ad hoc programs developed through narrow functional lenses” (Gomez-Mejia, Berrone, & Franco-Santos, 2010, p. 55).

**Proposition 3: Institutional pressures influence managerial responses leading to a direct relationship between the human capital components and objective career success.**

The above three research propositions are integrated to propose a formal model shown in Figure 1. This model depicts the relationships suggested by the three facets of human capital theory of career success. In the following Chapter Two, each component of the model shown in Figure 1 is described and the relationships between the components are hypothesized.
Figure 1
Theoretical Model
Human Capital Theory of Career Success

[Diagram showing the relationship between Human Capital (HC) Components, Institutional impact on HC, Performance Evaluation, Economic impact of HC, Behavioral impact on HC, Objective Career Success, and Rank.]
CHAPTER 2
FORMAL MODEL AND HYPOTHESIS DEVELOPMENT

To model the three facets of the human capital theory of career success, the human capital components are described in this Chapter Two, as well as their relationships with performance evaluations and objective career success. These constructs and their hypothesized relationships are depicted in the model shown in Figure 1.

**Human Capital Components**

Human capital reflects knowledge, skills, and abilities acquired through education, experience, and training which are commonly called human capital components (Becker, 1962). These components of human capital are described in the forthcoming section of this Chapter Two and their hypothesized relationships with performance evaluation and career success are formally articulated.

**Education.** Most research in the field of careers has used the economic facet of human capital theory to examine the influence of education on career success (Judge, Cable, Boudreau, & Bretz, 1995). Past studies indicate that education is positively associated with several outcomes such as more promotions, higher pay, lower turnover, less absenteeism, and less substance abuse (Weiss, 1995; Judge, Cable, Boudreau, & Bretz, 1995). Focusing on pay that is a proxy for objective career success, Becker (1993) suggests that pay of more educated and trained employees is almost always higher than the pay of less educated and trained ones. Also, Singh, Ragins, and Tharenou (2009) found education to be a significant predictor of pay even
after controlling for age, gender, organizational size, rank, industry type, and promotion history. Even in the context of China, a country with different socio-cultural and institutional forces than countries researched in the West, a significant positive relationship between education and pay was found (Fleisher, Hu, Li, & Kim, 2010). Therefore, it is not surprising that in a meta-analysis of career success, education was found to be the strongest predictor of pay (Ng, Eby, Sorensen, & Feldman, 2005). In other words, the findings of empirical research support the claim that the relationship between education and objective career success is significant (e.g. Nabi, 1999; Howard, 1986; Melamed, 1996; Mincer, 1974).

The economic facet of human capital theory assumes that investing in education leads to greater productivity, which is captured by performance evaluations (Daly, Hitchens, & Wagner, 1985; Mason & van Ark, 1994; Steedman & Wagner, 1987, 1989; Prais, Jarvis, & Wagner, 1989). This suggests that organizations will only invest in developing the educational component of human capital to the extent that they can receive a satisfactory return on their investment in the form of increased productivity. More recently, in a meta-analysis by Ng and Feldman (2009), the authors found education to be a significant predictor of core task performance. In summary, based on human capital theory and previous empirical research, performance evaluation scores are likely to explain how education is mapped onto objective career success. Therefore, the following hypothesis is provided:

**Hypothesis 1**: Performance evaluation scores will mediate the relationship between education and objective career success in terms of pay.

**Tenure as Firm-Specific Experience.** The economic facet of the human capital theory suggests that time spent in the firm will yield firm-specific knowledge that is expected to result in greater
productivity and subsequently greater objective career success. Tenure is defined as the length of employment with the organization of current employment (Hitt, Bierman, Shimizu, & Kochhar, 2001). The unique characteristic of the tenure component of human capital is that it is often path-dependent (Barney, 1991; Itami, 1987) in terms of tacit knowledge that can only be developed along the trajectories of interactions in the specific work environment (Lepak & Snell, 2002; Polanyi, 1967; Williamson, 1975).

The length of tenure signals to what extent both the organization and its employees are motivated to remain in a lasting relationship. While the organization seeks a higher return on its investment, employees accept that their mobility is restricted with tenure because it reduces their uncertainty of searching for a new job. Extant literature indicates a positive relationship between tenure and objective career success in terms of pay (Bronars & Famulari, 1997; Judge & Bretz, 1994). In particular, Boudreau, Boswell, and Judge (2001) found organizational tenure to significantly influence objective career success in terms of pay in both the US and European samples. Furthermore, tenure was found to be a significant predictor of pay in the meta-analysis performed by Ng and colleagues (2005). Overall, it seems that while HR managers espouse that the compensation system in their organizations is primarily based on performance, in practice most firms primarily base rewards on seniority (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

When tenure, along with the achieved seniority status, is mapped onto performance evaluations, the length of an employees stay in a particular firm, along with the length of time in their profession, is positively related to career success (Judge, Cable, Boudreau, & Bretz, 1995). Specifically, Topel (1991) found that ten years of seniority resulted in pay raises of 25% while in a replication of the same study, Altonji and Williams (2005) found a 10% increase in pay over a
ten-year period. Obtaining similar findings, Williams (2009) found pay to increase by 1% per year over the first ten years on the job in the UK. Changes in tenure typically lead to changes in career success in terms of pay through a gradual process which may be influenced by the design of the performance evaluation system. This indicates that performance evaluations may influence the way in which tenure has impact on career success.

While the relationship between tenure and increase in pay has had strong support from previous research, the relationship between tenure and productivity has yielded mixed findings. The seminal study by Medoff and Abraham (1981) specifically tested the relationship between tenure, productivity, and compensation and found that productivity (using performance evaluations as a proxy) did not explain pay increases. In a replication of that study, Flabbi and Ichino (2001) also found that performance did not mediate the relationship between tenure and compensation. On the other hand, both theory as well as an important number of empirical studies have supported the tenure-performance relationship (Schmidt, Hunter, & Outerbridge, 1986; Hall & Hall, 1976; Sturman, 2003; Van Iddekinge, Ferris, Perrewe, Perryman, Blass, & Heetderks, 2009). In summary, based on human capital theory and previous empirical research, performance evaluation scores are likely to explain how tenure is mapped onto objective career success. Therefore, the following is hypothesized:

**Hypothesis 2:** The performance evaluation scores will mediate the relationship between the tenure component of human capital and objective career success in terms of pay.

**Training.** Training that is provided to employees can be either general or specific. General training is a source of generic knowledge that can be used for the benefit of the organization but is also portable to other organizations. In contrast, specific training provides
knowledge specific to the firm offering the training and therefore it is virtually not portable. The economic facet of human capital theory proposes that specific training will have a significant impact on wages while general training will not be of influence (Melero, 2004).

Becker (1962) suggests taking an economic perspective that firms should pay employees who received general training the same amount as they would earn elsewhere while paying those with specific training a premium over their average market value. Also, individuals who receive specific training are less likely to turnover than those with more general training (Becker, 1962). As a result, their increases in pay will be more significant (Blundell, Dearden, Meghir, & Sianesi, 1999) because the knowledge acquired through specific training is less portable (Blundell, Dearden, & Meghir, 1996; Lillard & Tan, 1992; Booth, 1993).

In line with the economic facet of human capital theory, specific training has been found to consistently have a significant influence on objective career success (Blundell, Dearden, Meghir, & Sianesi, 1999). For example, Singh et al. (2009) found a significant relationship between training with pay even after controlling for age, gender, organizational size, rank, industry type and promotional history. Furthermore, in a meta-analysis, Ng et al. (2005) found training and skill development opportunities to influence significantly and positively objective career success.

In line with the managerial facet of human capital theory, organizations are likely to offer training expecting to witness the effects of their investment in the form of improved employee performance. Training is expected to develop job-specific skills that enhance individual performance (Salas, Prince, Bowers, Stout, Oser, & Cannon-Bowers, 1999) and therefore result in greater productivity (Hatch & Dyer, 2004). Several empirical studies found a significant
relationship between specific training and performance. In a longitudinal study, Van Iddekinge et al. (2009) found that the training intercept and slope had significantly positive relationships with customer service performance. The positive effects of training on productivity have been found to exist both at the individual as well as organizational levels (Bartel, 1994).

Training offers employees numerous benefits beyond skill development. For example, training may also influence work-place attitudes, self-efficacy, and motivation to apply the newly learned knowledge and skills (Kraiger, Ford, & Salas, 1993; Chen & Klimoski, 2007). Specific training is expected to allow individuals to acquire firm and industry specific knowledge that should enhance performance because of the acquired specific knowledge, skills, and abilities. However, specific training will be mapped on one’s objective career success over a period of time to the extent performance is properly evaluated. In conclusion, based on human capital theory and previous empirical research, performance evaluation scores are likely to explain how specific training is mapped onto objective career success. Therefore, the following hypotheses is proposed:

**Hypothesis 3:** Performance evaluation scores will mediate the relationship between specific training and objective career success in terms of pay.

**Performance Evaluation.** The managerial facet of the human capital theory of career success suggests that performance evaluations influence objective career success in terms of pay only to the extent to which managers are able to devise appropriate pay-for-performance policies and implement them as effective practices. These practices are effective when they motivate employees to use their knowledge, skills, and abilities to their fullest extent. Various theories provide explanations for the manner in which pay-for-performance policies and practices could
align divergent goals of the principal and agent (i.e., agency theory, transaction cost economics), reinforce desired behaviors (i.e., operant conditioning theory), motivate particular behaviors (i.e., expectancy theory), and attract individuals with desired characteristics (i.e., sorting effects) (Chiang & Biritc, 2010). Three of the most frequently used incentive motivators in organizations are money, social recognition, and feedback, with money being the most frequently used form of motivation (Stajkovic & Luthans, 2001). Empirical evidence, though somewhat equivocal, suggests that money is an important motivator for most people (Rynes, Gerhart, Minette, 2004). Through both sorting and incentive effects, pay-for-performance compensation systems have been suggested to provide two advantages over fixed salary compensation 1) they insure that higher quality employees are attracted, and 2) they motivate employees to use their knowledge, skills, and abilities (Cadsby, Song, & Tapan, 2007).

Pay-for-performance has shown to be strongly related to individual performance (Jenkins, Mitra, Gupta, & Shaw, 1998). Chiang and Birch (2010) found support for the pay-for-performance relationship and furthermore suggest that employees perceive a pay-for-performance HR policy as an investment in them that is made by the organization. Scott, Shaw and Duffy (2008) found pay-for-performance as particularly effective when a clear link exists between pay and performance, emphasizing that this clarity is especially for older employees. Also, a study examining the interaction between compensation system (i.e., fixed wage versus incentive-based) and task attractiveness indicated that pay-for-performance worked better under conditions where the employee did not perceive the task as attractive (Fessler, 2003).

Furthermore, Lazear (1999, 2000) found that after switching from fixed-wages to a pay-for-performance compensation system, the firm experienced a 44 percent increase in output per
worker, where half of this increase was due to incentive effects and the other half to sorting effects. Cadsby, Song, and Tapon (2007) also found that the incentive and sorting effects of pay-for-performance HR systems lead to 38% greater performance than fixed salaries.

In summary, several theoretical explanations, empirical results (i.e., Heneman, 1990) and meta-analyses (i.e., Locke et al., 1980; Guzzo et al., 1985; Jenkins et al., 1998) show support for the relationship between pay and performance. Based on the broad theoretical grounding and strong empirical evidence, the following hypothesis is presented:

**Hypothesis 4:** Performance evaluation scores will have a positive significant relationship with objective career success in terms of pay.

Overall, the economic and managerial facets of human capital theory indicate that the mediating mechanism of the relationship between human capital and objective career success is performance evaluation. However, the institutional facet of the theory of human capital indicates that institutional pressures and socio-cultural factors may have a direct influence on pay in spite of the mediating role of performance evaluation scores between the human capital components and objective career success in terms of pay. As a result, because managers may give primacy in pay to these factors rather than performance scores, performance evaluation scores may not be the only significant factor influencing objective career success as measured by pay because managers pressured by the institutional forces of benchmarking may reward reputation of educational background and specificity of training independent of performance evaluation. The common rationale that was provided for the practice is to secure the retention of well-educated and well-trained employees (Humphreys, 2002).

Benchmarking practices commonly involve reliance on salary surveys that are often used...
as guidelines to align average pay for specific tiers of employees with the benchmarked group. Therefore, the HR manager may respond to institutional pressures proactively by establishing pay bands to fit the reference to the benchmarked ones. In effect, this alignment may bypass the pay-for-performance system. As a result, changes in career success in terms of pay may be due to the direct effects of the symbolic value of human capital that result from the alignment of pay and go beyond the mediating effects of evaluated individual performance. Therefore, this practice may result in a direct influence of human capital development on objective career success in terms of pay in spite of the influence that performance evaluation scores may have on pay (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

The influence of human capital development on objective career success in terms of pay may also be reinforced by the salience of socio-cultural factors. For example, the process of performance evaluations may become a highly socialized and internally political process, stimulating consensus that is typically expected to be achieved in organizations located in developing countries. In cultures of developing countries that are low in assertiveness, high in uncertainty avoidance, high in power distance, and high in in-group collectivism, managers may not be assertive in implementing a strict pay-for-performance system as they may not want to jeopardize group harmony. Therefore, the following hypothesis is proposed:

*Hypothesis 5: Managerial emphasis of symbolic aspects of human capital will lead to a positive direct effect of a) education, b) tenure, and c) specific training on objective career success in terms of pay.*

**Moderating Component**

**Rank.** A more rigorous test for theory requires that we specify the boundary conditions that may delimit the context within which the theory applies (Bacharach, 1989; Whetten, 1989).
This implies focus on the most relevant moderators. In the domain of career success the theoretically most relevant moderator is rank (managers and non-managers) as managers may be perceived as entitled relative to non-managers. The grouping of employees into managers and non-managers is relevant because economic and managerial facets of human capital theory do not explain how HR policies and practices are structured and implemented across different ranks within the organization. The grouping into managers and non-managers is relevant in the domain of careers because managerial career success differs from non-managerial career success in three ways (Tosi, Werner, Katz, & Gomez-Mejia, 2000): 1) managerial decisions are difficult to measure; 2) managers benefit from information asymmetries regarding organizational processes and decisions; and 3) managers may use information to their own benefit before attempting to generate benefits for the firm (Ammeter, Douglas, Gardner, Hochwarter, & Ferris, 2002; Lepak & Snell, 2002).

Managerial performance is more difficult to measure than non-managerial performance because “high levels of interdependence often make it difficult to isolate individual managers’ contributions to outcomes” (Wood, Atkins, & Bright, 1999, p. 703). In other words, traditional reward systems may sometimes be inappropriate for managerial positions because of the difficulty of measuring the individual manager’s outcomes (Gomez-Mejia, Berrone, & Franco-Santos, 2010). Therefore, managers are typically compared to the evaluations of other managers to help ensure internal equity and the desired distribution of bonuses within the budget (Wood, Atkins, & Bright, 1999).

The institutional facet of the human capital theory of career success also suggests that culture may have a strong influence on differentiating managerial pay from the pay of non-
managers (Tosi & Greckhamer, 2004). For example, the high level of power distance is expected to influence the acceptance of larger pay differential between managerial and non-managerial groups. In addition, in cultures where differences in social status and positions of power are more socially accepted, it is more acceptable for managers not only to have higher pay levels but also to have more discretion to influence their pay (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

For a typical organization, the pool of potential individuals who could be hired for managerial positions is commonly limited (Gomez-Mejia, Berrone, & Franco-Santos, 2010). As the market for higher-ranked managers is segmented based on firm size and industry the potential applicant pool is even further reduced (Hambrick, Finkelstein, & Mooney, 2005). Frequently, the number of the subordinates and the level of resources managers are responsible, rather than their evaluated performance, are of influence on their level of pay (Gomez-Mejia, Berrone, & Franco-Santos, 2010).

Overall, consistent with human capital theory, managers tend to have more years of education and experience, and make more personal sacrifice and investment in their careers than non-managers do. In other words, “few people have the ability, stamina, or willingness to pay the associated personal price in terms of stress, family life, loss of privacy, and minimal leisure time. So their higher pay may be seen as a return on this human capital investment (Gerhart and Malkovich, 1990; Buck et al., 2008)” (Gomez-Mejia, Berrone, & Franco-Santos, 2010, p. 135). Furthermore, research has shown greater returns for managerial training than for non-managerial training (Lillard and Tan, 1992; Bartel, 1995; Blundell, Dearden, Meghir, & Sianesi, 1999). In light of those differences, Baker, Jensen, & Murphy, (1988) found that pay is seldom based on performance at the managerial level. Also, Flabbi and Ichino (2001) found that rank mattered
because only at the lowest levels of the firm performance explained objective career success.

This leads to the following hypothesis:

_Hypothesis 6: Rank will moderate the relationship between performance evaluation scores and pay such that the relationship between performance evaluations scores and pay will be stronger for non-managers than for managers._

**Influential Variables Beyond Those Hypothesized in the Theoretical Model**

Demographic factors have been found to influence different behavioral patterns and outcomes, including promotions and pay attainment (Pfeffer, 1981; Judge, Cable, Boudreau, & Bretz, 1995). Research findings suggest that demographic variables are important predictors of career success for both managers and non-managers (Gattiker & Larwood, 1988, 1989; Judge, Cable, Boudreau, & Bretz, 1995). As the theoretical and empirical focus of this paper is to examine how different components of human capital and performance evaluation influence objective career success, demographic variables (age, gender, marital status, and number of dependents) are used only as control variables.

**Age.** Age has been consistently found to be a predictor of objective career success (Cox & Nkomo, 1991; Gattiker & Larwood, 1988, 1989; Gutteridge, 1973; Harrell, 1969; Jaskolka, Beyer, & Trice, 1985), presumably because extrinsic outcomes accrue over time (Judge et al., 1995). In particular, Judge and colleagues (1995) found that older individuals had higher pay than did younger individuals. More recently, in a meta-analysis, Ng and colleagues (2005) found age and career success in terms of pay to have a significant positive relationship.

Research of aging and performance evaluations has yielded mixed results. One line of research has shown that aging negatively influences individual performance because over time older individuals lose certain important abilities, such as speed, dexterity, motor coordination
and strength (Giniger, Dispenzieri, & Eisenberg, 1983; Rhodes, 1983). Age has also been shown to be associated with decreases in performance on tests of learning, memory, reasoning, spatial abilities, and psychomotor speed (Lindenberger & Baltes, 1994; Salthouse & Babcock, 1991; Verhaeghen & Salthouse, 1997). More recently, research suggests that age is negatively related to objective performance measures during training (Hirschfeld & Thomas, in press). However, in socially-rich tasks, the findings about the relationship between age and performance have been inconsistent (Rhodes, 1983; McEnvoy & Cascio, 1989; Waldman & Avolio, 1986).

Aging has also been shown to influence motivation and social perceptions, which are the factors that influence performance and pay (objective career success). Research findings suggest that age is negatively related to general motivation (Judge & Hulin, 1993; Judge & Locke, 1993), pay increases (Siegel & Ghiselli, 1971), and training opportunities (Blundell, Dearden, Meghir, & Sianesi, 1999). From an economic perspective, organizations offer older employees fewer training and networking opportunities as they are expected to remain less time in the workforce and therefore offer the firm a lower return on investment (Blundell, 1999; Kuhlen, 1977; Lawrence, 1988). In summary, age is expected to influence both pay and performance, and therefore needs to be included as a control variable in the proposed model.

**Gender.** A considerable amount of research suggests that women do not achieve the same level of objective career success as men do (Judge, Cable, Boudreau, & Bretz, 1995). For example, Judge et al. (1995) found that men in general achieved higher pay levels than did women. Gender stereotyping explanations may shed light why women seldom achieve the same level of objective career success as their male counterparts. Kanter (1977) suggests that traditional stereotypes impede women from pursuing the same path of career development as
men do. In a more recent work, Tharenou (1997) suggests that discrimination against women is based on employers’ expectations that women will underperform men, and therefore may be inclined to leave the organization sooner than men do.

One common explanation for the gap in gender pay has been women’s temporary absence from work during pregnancy while having young children. These derailing instances may create fewer incentives for women to invest in their education and training (Becker, 1993). Women, with children also are less likely to receive proper training than men are because they are expected to remain employed for shorter periods of time (Blundell, Dearden, Meghir, & Sianesi, 1999). In the meta-analysis by Ng et al. (2005), gender was found to moderate the relationship between education level and career success in terms of pay as well as between organizational tenure and pay. This indicates that gender does have a significant impact on performance evaluations and career success and therefore, this variable needs to be controlled in the proposed model.

Marital status. A relatively consistent finding in the literature on careers is that married individuals achieve higher levels of objective career success than unmarried individuals (Judge and Bretz, 1994; Pfeffer & Ross, 1982; Judge, Cable, Boudreau, & Bretz, 1995). According to Pfeffer and Ross (1982), spouses can be a valuable support when they can alleviate some of the burden of household chores and offer emotional support. For example, Judge and colleagues (1995) found that married individuals earned higher income than unmarried individuals did. However, if the spouse were also employed outside of the home, then this changed status would likely influence a negative relationship between marital status and career success (Judge, Cable, Boudreau, & Bretz, 1995). Furthermore, the meta-analysis performed by Ng et al. (2005) found
the relationship between married couples and objective career success in terms of pay was stronger than that of non-married couples. Based on the effect of marital status on objective career success, this variable needs to be controlled in the proposed model.

**Number of dependents.** The influence of the number of dependents on objective career success has been met with mixed results. On the one hand, the number of dependents has been suggested to influence career success positively (Bielby & Bielby, 1989; Judge, Cable, Boudreau, & Bretz, 1995), as children foster career stability and job commitment (Stroh, Brett, & Reilly, 1996). On the other hand, it is likely that the larger the number of dependents, the more time and energy needs to be spent on the family members, and therefore less time can be devoted/dedicated to furthering one’s career. In any case, this variable needs to be controlled.
Figure 2
Hypothesized Relationships
Human Capital Theory of Career Success

Human Capital
- Education
- Tenure
- Training

Objective Career Success
- Pay

Performance Evaluation
- Performance evaluation score

Control Variables
- Age
- Gender
- Marital status
- Number of dependents

Rank
Manager/non-manager

+$H_5$

+$H_1, H_2, H_3$

+$H_1, H_2, H_3, H_4$

$-H_6$
CHAPTER 3

DESIGN, METHODOLOGY, AND RESULTS

This study uses a cross-sectional design and path analysis to test the extended human capital theory of career success in the context of a developing country with salient institutional and socio-cultural pressures. For this design, secondary data for the years 2009 and 2010 (performance lagged one year) on 1,042 employees was obtained from a major Ecuadorian financial services company. Observations with missing data on any of the substantive variables of interest were eliminated from the study using listwise deletion. The number of employees with complete secondary information used in this study is 782 (624 non-managers and 158 managers) representing 75 percent of the total population of employees. Table 1 provides descriptive statistics and intercorrelations for independent, dependent, and control variables.
Table 1
Descriptive Statistics, and Intercorrelations

<table>
<thead>
<tr>
<th>Variables</th>
<th>M</th>
<th>SD</th>
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</thead>
<tbody>
<tr>
<td>1 Gender</td>
<td>0.53</td>
<td>0.50</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2 Marital Status</td>
<td>0.59</td>
<td>0.49</td>
<td>.12**</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3 # Dependents</td>
<td>1.10</td>
<td>1.17</td>
<td>.18**</td>
<td>.53**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4 Age</td>
<td>34.10</td>
<td>7.98</td>
<td>.13**</td>
<td>.28**</td>
<td>.55**</td>
<td></td>
<td></td>
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<tr>
<td>5 Tenure</td>
<td>6.72</td>
<td>5.38</td>
<td>.03</td>
<td>.22**</td>
<td>.38**</td>
<td>.68**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Education</td>
<td>15.53</td>
<td>1.76</td>
<td>-.02</td>
<td>-.08</td>
<td>-.22**</td>
<td>-.23**</td>
<td>-.17**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Specific Training</td>
<td>1.02</td>
<td>2.65</td>
<td>-.02</td>
<td>.04</td>
<td>.04</td>
<td>.08*</td>
<td>.01</td>
<td>.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Performance Evaluation</td>
<td>4.28</td>
<td>0.35</td>
<td>-.02</td>
<td>.03</td>
<td>-.04</td>
<td>-.05</td>
<td>-.02</td>
<td>.06</td>
<td>.05</td>
<td></td>
</tr>
<tr>
<td>9 Pay (2010)</td>
<td>818.62</td>
<td>832.53</td>
<td>.03</td>
<td>.10**</td>
<td>.17**</td>
<td>.33**</td>
<td>.23**</td>
<td>.21**</td>
<td>.22**</td>
<td>.11**</td>
</tr>
<tr>
<td>10 Rank</td>
<td>1.20</td>
<td>0.40</td>
<td>-.04</td>
<td>.06</td>
<td>.08*</td>
<td>.24**</td>
<td>.28**</td>
<td>.08*</td>
<td>.16**</td>
<td>.14**</td>
</tr>
</tbody>
</table>

Note: N=782; * p<.05 (two-tailed), ** p<.01 (two-tailed); Gender (1=male, 0=female); Rank (1= non-managers, 2= managers).
**Measures of Independent Variables**

**Years of Education.** The total number of formal years of education for each employee was calculated as the sum of the years of high school, undergraduate, diploma’s, and MBA. The number of years of education assumed to be completed for each level of formal education was as follows: individuals completing high school were assumed to have completed 12 years of education; individuals with an undergraduate degree were assumed to have completed 4 years of education; individuals having completed a graduate diploma were assumed to have completed one year of education; and those who completed an MBA were assumed to have completed two years of education.

The base number of years of education for individuals who completed high school was set at twelve to represent the twelve years of schooling before college. To this base, the number years of education beyond secondary schooling was added. For example, individuals who completed an undergraduate degree had four years of education added to the twelve years of high school for a sum of sixteen years of total education. Also, common in Ecuador are postgraduate diplomas/certificates that typically last one year. These certificates are considered an option for those individuals who cannot afford or do not have time to pursue an MBA program. Individuals completing this postgraduate certificate/diploma had one year added to the previous sixteen years, for a total of seventeen years of education. Individuals who completed a masters’ degree were coded as receiving two years of education (typically MBA programs in Ecuador last two years) which was added to the total number of years. In the cases where individuals had more than one diploma and/or MBA degree, the corresponding number of years were also added to the total. The sum of the years from undergraduate, postgraduate, and masters’ degrees yielded the total accumulated number of years of education at a given time, which is the measure for the
years of education used in this study. While ideally determining whether an individual was
currently enrolled in or had already completed a specific diploma would have been preferred, the
available secondary data did not specify these details. Therefore, the assumption was made that
the degree pursued was eventually completed.

The total number of years of education ranged from twelve to twenty-one with a mean of
15.52 (s.d. = 1.76). Approximately 17 percent of the individuals had a high school degree, 74
percent had a four-year undergraduate degree, and the remaining 9 percent of individuals had
some form of graduate degree.

**Tenure.** Tenure was operationalized as the number of years from the time of employment
until the time of this study. The tenure ranged from 1 to 36 years with a mean of 6.72 (s.d. =
5.38) years.

**Training.** The firm provides both internal (generic) and external (specific) training for its
employees. Internal training was considered by the firm to be generic because versions of the
same type of internal training were offered in most other firms. This type of training was not
included in this study as human capital theory, as conceptualized by Becker, suggests that
specific training and not general training influence career success. Specific training was
operationalized as the total number of independent courses an employee participated in
externally since the day of initial employment with the firm. The number of courses in which
individuals participated was used instead of a more accurate measure such as number of hours of
training because the exact number of hours per course was not available. The assumption was
that the number of courses in which an employee participates should increase knowledge, skills,
and abilities, and ultimately influence performance appraisals and career success in terms of pay.
The percent of employees who participated in general (internal) training is approximately 24 percent with a mean of .53 (s.d. = 1.39). The percent of employees who participated in specific (external) training is 30 percent with a mean of 1.02 (s.d. = 2.65).

**Performance evaluation.** The yearly performance evaluations scores were measured using a 5-point likert type scale with 1 (one) indicating poor performance and 5 (five) indicating excellent performance. The procedure used for scoring the performance appraisal by the supervisors involved the following steps: 1) Each employee established yearly goals and provided self-evaluations against these goals; 2) Each employee was evaluated by his or her supervisor as to the attainment of the goals established by the employee and by the organization; 3) The employee and the supervisor were expected to meet and reach a consensus as to the final evaluation score; 4) In the case that an agreement was not reached, a representative from the human resource department was assigned to act as a mediator between the employee and the supervisor; 5) If even after the involvement of the mediator an agreement could not be reached, the score proposed by the supervisor took precedence and remained as the final evaluation score. The mean performance evaluation score is 4.28 (s.d. = .35).

**Measure of Moderating Variable**

**Rank.** The rank of the employees of the financial services firm are divided into six categories: presidency, management, assistant management, chief, supervisory, and other levels. For the purposes of this study, individuals working in the presidency, managerial, assistant managerial, chief or supervisory role were categorized as managers. All individuals labeled by the firm to be working in “other levels” were categorized as non-managers. Non-managers represent 82 percent of the sample and managers represent 18 percent of the sample.
Measure of Dependent Variable

Objective career success in terms of pay. Pay in Ecuador is typically calculated on a monthly basis in terms of the basic fixed monthly salary. In order to normalize the data, a natural logarithmic transformation was performed and the resulting outcome was used for the analysis. The objective career success variable does not include any variable portions of the salary, bonuses or any additional compensation required by Ecuadorian law. Salaries have a broad range from $240 per month to almost $9,000 per month with a mean salary of $818.62 per month (s.d.= 832.53).

Measures of Control Variables

Age. Age was determined by the number of months from birth until the time when this study was conducted. Ages ranged from 21 to 64 with a mean age of 34 (s.d.= 7.98).

Gender. The gender variable will be coded 1 for male and 0 for female. The sample was fairly balanced with 46 percent female and 54 percent male.

Marital status. Marital status was coded 1 for married and 0 for single. The percent of employees that were not married in this sample represented 40 percent of all employees while the married employees represented 60 percent.

Number of dependents. The number of dependents was self-reported and operationalized as the number of immediate family members who were financially dependent on the employee and were under the age of 18. Forty-two percent of the sample does not have children, while 58 percent had between one and six children.

Results of Structural Model

The data was analyzed using path analysis in Mplus version 6. Path analysis offers the
benefit of assessing the fit of the overall proposed model, as well as the specific relationships among the variables (LeBreton, Wu, & Bing, 2008).

Three indices were used to determine model fit: chi-square ($\chi^2$), comparative fit index (CFI), and root mean square error of approximation (RMSEA). The theoretical model resulted in a chi-square = 19.48 (d.f. = 5), CFI = .97, and RMSEA = .06. Values of .95 or higher for CFI and .06 or lower for RMSEA are considered to result in good fit (Hu and Bentler, 1999). Overall, the results suggest good fit of the theoretical model.
TABLE 2

Structural Equation Modeling Results

<table>
<thead>
<tr>
<th>Paths Modeled</th>
<th>Theoretical Model</th>
<th>Parameter Coefficient</th>
<th>t-Value</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Perf. Eval.</td>
<td>0.01</td>
<td>1.34</td>
<td>0.179</td>
</tr>
<tr>
<td>Specific Training</td>
<td>Perf. Eval.</td>
<td>0.01</td>
<td>1.27</td>
<td>0.203</td>
</tr>
<tr>
<td>Tenure</td>
<td>Perf. Eval.</td>
<td>0.00</td>
<td>-0.29</td>
<td>0.773</td>
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<tr>
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<td>0.65</td>
<td>0.515</td>
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<tr>
<td>Age</td>
<td>Pay</td>
<td>0.03</td>
<td>8.48</td>
<td>0.000</td>
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<tr>
<td>Marital Status</td>
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<td>0.08</td>
<td>1.89</td>
<td>0.059</td>
</tr>
<tr>
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<td>0.001</td>
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<tr>
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<td>Pay</td>
<td>0.09</td>
<td>8.15</td>
<td>0.000</td>
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<tr>
<td>Specific Training</td>
<td>Pay</td>
<td>0.02</td>
<td>2.52</td>
<td>0.012</td>
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<td>Tenure</td>
<td>Pay</td>
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<td>-0.76</td>
<td>0.445</td>
</tr>
<tr>
<td>Rank</td>
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<tr>
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<td>4.42</td>
<td>0.000</td>
</tr>
<tr>
<td>Perf. Eval. X Rank</td>
<td>Pay</td>
<td>-0.33</td>
<td>-2.49</td>
<td>0.013</td>
</tr>
</tbody>
</table>

Note. N= 782. Overall fit: $\chi^2= 19.48$, d.f.= 5, p<.01, CFI=.97, RMSEA=.06.
**Hypothesis Testing**

Hypotheses 1, 2, and 3, of the proposed model, reflecting the economic facet of the theory of human capital of career success, predict that performance evaluation scores will have a positive mediating relationship between the human capital components and objective career success in terms of pay. One of the basic requirements for mediation is that predictor variables be significantly related to the mediating variable (LeBreton, Wu, & Bing, 2008). For this model, the results of the analysis indicate that none of the human capital components has a relationship of statistical significance with performance evaluation scores (years of formal education $\lambda = .01$, $t = 1.34$, $p = .18$; tenure $\lambda = .00$, $t = -.29$, $p = .77$; specific training $\lambda = .01$, $t = 1.27$, $p = .20$). Therefore the proposed hypotheses 1, 2, and 3 are not supported.

Hypothesis 4, of the proposed model, reflecting the managerial facet of the human capital theory of career success, predicts a significant relationship between performance evaluation scores and objective career success in terms of pay. This hypothesis is supported, as performance evaluation scores ($\lambda = .22$, $t = 4.42$, $p < .001$) did indicate a significant positive relationship with objective career success in terms of pay.

Hypothesis 5, of the proposed model, reflecting the institutional facet of the human capital theory of career success, predicts significant relationships between the human capital components and objective career success in terms of pay. This hypothesis is supported for the components of, years of formal education ($\lambda = .09$, $t = 8.15$, $p < .001$) and specific training ($\lambda = .02$, $t = 2.52$, $p = .01$), which significantly influence career success, but not for the component of tenure ($\lambda = .00$, $t = -.76$, $p = .45$), which does not have a significant relationship with career success in terms of pay.
Hypothesis 6, which is related to the boundary condition of the proposed model predicts the moderating effect of the rank variable on the relationship between performance evaluation scores and objective career success in terms of pay. Specifically, hypothesis 6 predicts that performance evaluation scores have a greater influence on career success as pay for non-managers than for managers. Both performance evaluation scores and rank were mean-centered before creating the interaction term. The results indicate that the interaction has a significant influence ($\lambda = -0.33$, $t = -2.49$, $p = .01$) on objective career success in terms of pay (see Figure 3). Therefore, hypothesis 6 is supported. This result indicates that as rank increases, the significance of the relationship between performance evaluation scores and pay decreases.
Post-hoc Analysis

Given the significant moderating effect of rank on the dependent variable of career success in terms of pay, it seems worthwhile to analyze the proposed model separately for each group. This post-hoc analysis may identify differences that were not accounted for by the original hypotheses, and any interpretation should be limited given the sample-specific nature of this investigation. However, any identified differences may prove beneficial for extending this work in the future.

To test the proposed model comparatively for managers and non-managers, subjects were grouped by their rank, and the structural model was run for each of the two groups using the “grouping” function in Mplus. This procedure allows an opportunity to examine the relationships proposed by the model for managers and non-managers independently and then compare the results for these two groups. Of the 782 total subjects, 624 are non-managers and 158 are managers. The results of the analysis for non-managers are presented in Table 3 in a tabular form and in Figure 4 in a graphical form, while the results for managers are presented in Table 4 in a tabular form and in Figure 5 in a graphical form. The test of the proposed model upon grouping managers and non-managers indicates good fit with a chi-square= 18.46 (d.f. = 8), CFI=.95, and RMSEA=.06.
TABLE 3

Structural Equation Modeling Results

<table>
<thead>
<tr>
<th>Paths Modeled</th>
<th>Parameter Model</th>
<th>Coefficient</th>
<th>t-Value</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Perf. Eval.</td>
<td>0.01</td>
<td>0.80</td>
<td>0.423</td>
</tr>
<tr>
<td>Specific Training</td>
<td>Perf. Eval.</td>
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<td>1.58</td>
<td>0.114</td>
</tr>
<tr>
<td>Tenure</td>
<td>Perf. Eval.</td>
<td>0.00</td>
<td>-0.28</td>
<td>0.779</td>
</tr>
<tr>
<td>Gender</td>
<td>Pay</td>
<td>0.01</td>
<td>0.37</td>
<td>0.714</td>
</tr>
<tr>
<td>Age</td>
<td>Pay</td>
<td>0.02</td>
<td>5.80</td>
<td>0.000</td>
</tr>
<tr>
<td>Marital Status</td>
<td>Pay</td>
<td>0.08</td>
<td>1.93</td>
<td>0.054</td>
</tr>
<tr>
<td># Dependents</td>
<td>Pay</td>
<td>-0.08</td>
<td>-3.68</td>
<td>0.000</td>
</tr>
<tr>
<td>Education</td>
<td>Pay</td>
<td>0.08</td>
<td>6.77</td>
<td>0.000</td>
</tr>
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<td>Specific Training</td>
<td>Pay</td>
<td>0.03</td>
<td>3.79</td>
<td>0.000</td>
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<td>Tenure</td>
<td>Pay</td>
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<td>-0.01</td>
<td>0.990</td>
</tr>
<tr>
<td>Perf. Eval.</td>
<td>Pay</td>
<td>0.28</td>
<td>5.59</td>
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</table>

Note. N= 624. Overall fit: $\chi^2= 18.46$, d.f.= 8, p=.02, CFI=.95, RMSEA=.06.
# TABLE 4

## Structural Equation Modeling Results

<table>
<thead>
<tr>
<th>Paths Modeled</th>
<th>Theoretical Model (Managers)</th>
<th>Parameter Coefficient</th>
<th>t-Value</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Perf. Eval.</td>
<td></td>
<td>0.01</td>
<td>0.64</td>
<td>0.526</td>
</tr>
<tr>
<td>Specific Training</td>
<td></td>
<td>0.00</td>
<td>-0.61</td>
<td>0.543</td>
</tr>
<tr>
<td>Tenure Perf. Eval.</td>
<td></td>
<td>-0.01</td>
<td>-2.40</td>
<td>0.017</td>
</tr>
<tr>
<td>Gender Pay</td>
<td></td>
<td>0.04</td>
<td>0.46</td>
<td>0.643</td>
</tr>
<tr>
<td>Age Pay</td>
<td></td>
<td>0.06</td>
<td>7.17</td>
<td>0.000</td>
</tr>
<tr>
<td>Marital Status Pay</td>
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<td>0.09</td>
<td>0.81</td>
<td>0.421</td>
</tr>
<tr>
<td># Dependents Pay</td>
<td></td>
<td>0.01</td>
<td>0.11</td>
<td>0.916</td>
</tr>
<tr>
<td>Education Pay</td>
<td></td>
<td>0.09</td>
<td>3.99</td>
<td>0.000</td>
</tr>
<tr>
<td>Specific Training</td>
<td></td>
<td>0.00</td>
<td>-0.16</td>
<td>0.876</td>
</tr>
<tr>
<td>Tenure Pay</td>
<td></td>
<td>-0.02</td>
<td>-1.68</td>
<td>0.093</td>
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<tr>
<td>Perf. Eval. Pay</td>
<td></td>
<td>0.19</td>
<td>1.26</td>
<td>0.209</td>
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</table>

Note. N= 158. Overall fit: χ²= 18.46, d.f.= 8, p=.02, CFI=.95, RMSEA=.06.
The results of testing the economic facet of the theory of human capital of career success in terms of pay indicate that the relationship between the human capital components and performance evaluations for the non-manager group, is not statistically significant (years of formal education $\lambda = .01, t = .80, p = .42$; tenure $\lambda = .00, t = -.28, p = .78$; specific training $\lambda = .01, t = 1.58, p = .11$). The results for the managerial group, indicate that two human capital components have statistically non-significant relationships with performance evaluation scores (years of formal education $\lambda = .01, t = .64, p = .53$; specific training $\lambda = .00, t = -.61, p = .54$), while the tenure component of human capital has a significant relationship (tenure $\lambda = -.01, t = -2.40, p = .02$) with performance evaluation scores. Interestingly, the significance of this relationship is in the opposite direction from the predicted direction indicating potential leniency toward externally-recruited managers, which should be further researched.

The results of testing the managerial facet of the human capital theory of career success, for non-managers, indicate that performance evaluation scores ($\lambda = .28, t = 5.59, p < .001$) have a significant positive relationship with objective career success in terms of pay. In contrast, the performance evaluation scores of managers ($\lambda = .19, t = 1.26, p = .21$) do not have a significant relationship with pay. These results support the interaction effect found in the original analysis, indicated that, as hypothesized, a boundary condition of the theoretical model is set by rank.

The results of testing the institutional facet of the human capital theory of career success, for non-managers, indicate that years of formal education ($\lambda = .08, t = 6.77, p < .001$) and the level of specific training ($\lambda = .03, t = 3.79, p < .001$) have a significant influence on career success in terms of pay. This support for the theoretical predictions based on the institutional facet was not found for length of tenure ($\lambda = .00, t = -.01, p = .99$) that did not significantly influence career
success in terms of pay of non-managers. The results of testing these relationships for managers indicate that years of formal education (\(\lambda = .09, t = 3.99, p < .001\)) significantly influence career success in terms of pay. Therefore, years of formal education significantly influence career success in terms of pay for both the non-managerial and managerial samples. However, in the case of managers, specific training (\(\lambda = .00, t = -.16, p = .88\)) and the length of tenure (\(\lambda = -.02, t = -1.68, p = .09\)) do not show a significant influence on career success in terms of pay. Therefore, the predictions based on the institutional facet of human capital of career success are supported for the human capital component of education for both the managerial and non-managerial groups. While the prediction for specific training is supported only for the non-managerial group, the prediction of significant influence of tenure on career success in terms of pay was not found either for non-managers or managers.
Figure 4
Formal Model

Non-Managers

Human Capital Components

Education

Tenure

Specific Training

Objective Career Success
• Pay

Performance Evaluation
• Performance evaluation score

Note: N= 624; * p < .05, ** p < .01
Figure 5
Formal Model

Human Capital Components

Managers

Objective Career Success
• Pay

Performance Evaluation
• Performance evaluation score

Education

Tenure

Specific Training

3.99**

-1.68

-1.6

-2.40

-0.61

0.64

1.26

Note: N= 158; * p < .05, ** p < .01
CHAPTER 4

INTERPRETATION OF RESULTS

The main purpose of this dissertation is to extend the theory of human capital of career success by complementing the traditional economic human capital facet with the social institutional facet that takes into account managerial responses to socio-cultural and other environmental pressures, and the behavioral managerial facet that takes into account the influence of HR policies and practices on objective career success. The integration of these facets allows researchers to examine multiple theoretical pathways of human capital impact on objective career success in terms of pay. An additional purpose of the dissertation was to identify a possible boundary condition of the extended theory.

The results of the analysis of the proposed extension of human capital theory of career success indicate that in socially thick environments, such as those found in Latin American countries, institutional and managerial facets of human capital theory provide a better explanation as to how human capital translates into objective career success than does the economic facet. In other words, the main prediction of the economic facet of the theory that the greater accumulation of human capital results in higher performance evaluations and consequently to higher pay was generally not supported by this study conducted in the Ecuadorian context where only managerial and institutional facets proved to be generally significant.

The institutional facet of the theory of human capital of career success posits that
individuals will achieve greater career success based on the symbolic rather than economic value of their formal education and training. The results from the analyses indicate that education influences objective career success directly, while having no significant influence in a mediated way through performance evaluation scores. In allocating pay, managers appear to be influenced primarily by institutional pressures such as those coming from benchmarking based on the use of salary surveys. The manager may also be influenced by the symbolic value of the employees’ degrees obtained through formal education when they allocate pay to both non-managers and managers. This finding of significant symbolic rather than economic value of education for objective career success is important because there is a paucity of research addressing institutional pressures coming from external labor markets or socio-cultural environment and influence objective career success (Dulebohn & Werling, 2007). This is particularly relevant because numerous authors (i.e., Fernandez-Alees, Cuevas-Rodriguez, & Valle-Cabrera, 2006) have suggested that certain human capital components (i.e., years of formal education) may provide a signal as to an individuals knowledge, skills, and abilities and thus influence objective career success in terms of pay beyond the influence of performance evaluations. Therefore, the lack of support for performance evaluations as the explanatory mechanism between education and pay in the institutional context of a developing country (Ecuador) may suggest non-economic factors may be influencing managerial decisions regarding employee pay.

The institutional explanation of objective career success also suggests that the symbolic value of specific training may significantly influence objective career success in terms of pay. The results from this study indicate support for this hypothesis based on the institutional facet of the human capital theory of career success. However, once managers and non-managers are
compared in the post-hoc analysis, the obtained results suggest that only non-managers are rewarded through higher pay (i.e., objective career success) for participating in specialized training. This means that only the results for non-managers support the institutional facet of human capital theory that predicts that individuals will receive a higher pay based on the symbolic value of their training and/or based on the assessed demand for such training in the external labor market (i.e., which is benchmarked based on salary surveys). In contrast to non-managers, managers are not rewarded for attending specialized training seminars, most likely because the marginal benefit of training for non-managers is perceived to be greater than that for managers thus resulting in its greater impact on non-managerial than managerial compensation.

Although hypothesized as significant, based on the institutional facet, tenure does not have a significant influence on objective career success in terms of pay for either non-managers or managers. This means that specific tacit knowledge acquired over years of working at a particular firm is not rewarded as pay (Altonji & Williams, 2005). This finding is consistent, in part, with previous research that suggests that unskilled workers benefit more from staying at a particular job while skilled workers benefit much less. In other words, “for skilled workers human capital is transferable and tenure is not as important” (Dustmann & Meghir, 2005, p. 79).

As the sample for this dissertation was obtained from a firm in the financial services industry, where the majority of employees are skilled workers, the non-significant results for the tenure-pay relationship from this dissertation mirrors the results from other studies from the career success literature. Also, research from the United Kingdom and the United States suggests that, while the impact of seniority on wages is modest for union workers, it becomes negligible for nonunion workers (Williams, 2009). As the sample of this particular study was obtained from a
non-unionized firm, the results are consistent with the results from other studies with non-unionized labor.

The non-significant relationship between tenure and career success in terms of pay for non-managers and managers also suggests that, regardless of the knowledge individuals accumulate over time, they may not meet the formal educational requirements in order to obtain promotions into positions with higher educational requirements (Gomez-Mejia, Berrone, & Franco-Santos, 2010). This inference is consistent with the institutional facet of human capital theory in that different forms of human capital may be granted different levels of legitimacy across organizations. In other words, degrees obtained through formal education may have more symbolic value, and therefore greater legitimacy, than tenure may have. Therefore, in a competitive environment, organizations may be more willing to pay for the explicit symbolic value of degrees, than for implicit value implied to have been accrued through years of experience.

The managerial facet of the theory of human capital of career success suggests that performance evaluations and pay will be related only to the extent to which appropriate policies are implemented as practices to motivate individuals to use their knowledge, skills, and abilities to their fullest extent. The results obtained in this study support this hypothesis indicating that personnel with higher performance evaluations also have greater objective career success. More specifically, performance evaluation scores influence career success in terms of pay to a greater extent for non-managers than for managers. This finding supports the notion that at managerial levels, performance evaluations become more ambiguous and more difficult to measure and that at those levels, career success may be more the result of managerial responses to institutional
pressures and not to performance evaluations. Also, given the collectivistic culture and power distance that exists between non-managers and managers in Latin America, the finding supports the hypothesized inference that managers are not held to the same standards as non-managers. In particular, the results from the study show that performance evaluation scores are an important consideration for the objective career success of non-managers while not important for managers.

The economic facet of the theory of human capital of career success points to performance evaluations as the explanatory mechanism for the relationships between the human capital components and objective career success in terms of pay. However, in this study none of the human capital components (i.e., formal education, specific training, and tenure) influence performance evaluations. The finding that the economic facet does not explain objective career success, while the institutional and managerial facets do, is intriguing. This finding is interesting because it suggests that the claim of human capital theory that greater human capital results in greater performance does not seem to apply in a highly socialized context with strong institutional forces that may influence managerial decision-making such as that found in Ecuador. In other words, in highly socialized environments such as Latin America, greater importance appears to be placed on the symbolic value of education in applying pay for performance compensation HR practices while ignoring the link between human capital development and performance. This perspective is consistent with the findings of Medoff and Abraham (1980, 1981) as well as the replication of the same study by Flabbi and Ichino (2001), suggesting that performance evaluations do not explain the relationship of seniority and wages as suggested by human capital theory. Therefore, this theme requires further in-depth research.
CHAPTER 5
IMPLICATIONS AND CONCLUSIONS

The drivers of environmental changes such as globalization, hypercompetition, trade liberalization, deindustrialization, decrease in unionization, outsourcing, downsizing have influenced a shift away from manufacturing industries to more knowledge and service dominant industries thus altering the organization-employee relationship. As a result, human resource policies and practices have moved away from offering employees stable life-long employment with progressive promotion opportunities to requiring their responsiveness to market factors (i.e., with the rewards based on benchmarking of salaries) and performance (i.e., with competency-based pay) (Dulebohn & Werling, 2007). These changes require researchers to develop a better understanding of the factors influencing objective career success. Also, as the focus of past research on career success has taken place in developed countries, there is a need to understand how objective career success is achieved in developing countries. This dissertation addresses this need by integrating three complementary facets (i.e., economic, managerial, and institutional) of the human capital theory of career success to identify influences on career success in a context of socio-cultural and institutional pressures of a developing country (i.e., Ecuador). The results from this dissertation offer both theoretical as well as practical implications.

Research Implications

This dissertation extends existing career success research by integrating three complementary facets of human capital theory to explain objective career success. The model
developed based on these facets is tested for an explanation of how objective career success is achieved in a developing country environment with strong socio-cultural and institutional pressures. This testing of multiple theoretical facets implies theory pruning (Gray & Cooper, 2010). Theory pruning techniques allows for “limiting, bounding, and perhaps reducing theory, outside a large, multistudy framework” (Leavitt, Mitchell, and Peterson, 2010). Van de Ven and Johnson (2006, p. 814) suggest that “one has a much greater likelihood of making important knowledge advances to theory and practice if the study is designed so that it juxtaposes and compares competing plausible explanations of the phenomena being investigated.”

Owing to the employment of the theory pruning approach, the results of this study challenge the primary assumption of the economic facet of human capital theory, which suggests performance evaluations as the explanatory link between human capital development and objective career success, for alternative theoretical explanations for the relationships between human capital and objective career success. More specifically, the institutional and managerial facets appear to be driving objective career success in terms of pay in the Latin American context. In this way, human capital theory of career success was theoretically and empirically pruned.

The approach used in this dissertation responds to a call for careers researchers to consider how environmental factors influence career success (Dulebohn & Werling, 2007) beyond traditional internal labor market factors. They suggest that given the shift to a knowledge- based economy has diminished the importance of firm-specific knowledge and has placed more emphasis on industry-specific knowledge. The findings from this dissertation appear to support the claim that institutional forces influence managerial decisions regarding pay. In
other words, as suggested by the institutional facet proposed in this dissertation, objective career success is strongly influenced by factors external to a specific job performance metric.

**Practical Implications**

Dulebohn and Werling (2007) suggest that there still remains a disconnect between academic research and actual human resource practices regarding pay. This study tries to breach the academic practitioner gap by considering alternative complementary explanations (i.e., economic, managerial, and institutional) for objective career success and testing these explanations using one firm with rich secondary data. The results from this study offer several practical implications for both individuals and organizations. From an individual perspective, the findings suggest that non-managers, in a Latin American context, have three ways to further their objective career success in terms of pay: 1) by pursuing more years of formal education, 2) by participating in specific on the job training, and 3) by elevating their performance evaluations. Managers, on the other hand, can achieve greater objective career success solely through more years of formal education. This last finding is especially interesting given the significant negative relationship between years of tenure and performance evaluations. It appears, therefore, that managers are able to attain greater objective career success in terms of pay despite the scores on their performance evaluations. These findings support the institutional facet that suggests that managers, especially in societies with strong in-group collectivism and high power distance, are rewarded on the symbolic basis of their years of education. Also, these findings lend support to suggestions that money has greater instrumental value at lower organizational levels and therefore may not offer the primary motivation for managers to perform. Stajkovic and Luthans (2001) suggest that feedback and social recognition may prove to be stronger motivators than
money for managerial positions.

From an organizational perspective, the results offer insights as to the human resource policies and practices that drive objective career success. Specifically, the findings of this study present the human resource department with three questions: 1) Why are employees being rewarded for the development of their human capital while their human capital is not reflected on their performance evaluations? 2) Why are managers not being paid, in part, based on their performance evaluations?

Research primarily in Western societies support the notion that hiring individuals with greater levels of human capital results in greater on the job performance (Ng & Feldman, 2010). Contrary to these findings, the results from the current study do not support this position. Based on the results of the current study, it may be inferred that firms in Ecuador are hiring employees based on their credentials and compensating them according to the symbolic value of those credentials. In other words, while rewarding non-managerial employees based on their performance evaluations is consistent with pay for performance practices, the non-significant relationship between performance evaluations and pay for managers indicate that managers are being rewarded solely based on their credentials and not for their performance. Rewarding managers based on their formal education and not for their performance should draw attention from human resource departments to find ways to link performance and pay at higher organizational levels. From an economic perspective, the firm is paying for individuals with higher degrees as well as for their specific training while not benefiting from enhanced performance. This finding should encourage human resource departments to measure the specific competencies their employees are acquiring from training, and how these competencies are being
applied on the job.

The finding of a significant negative relationship between tenure and performance evaluations should also be of concern to human resource directors. It would appear that once an individual reaches a managerial position, based primarily on their formal education, they may over time develop a sense of entitlement. This sense of entitlement, which is typical in high power distance cultures may be influencing managers to lower their performance as the more seniority they achieve.

**Limitations**

Research studies conducted based on data sources from a developing country often encounter limitations of generalizability. This problem was encountered in this study because only one pioneering Ecuadorian firm was using pay for performance across all of its employees as a part of its HR pay policy. However, this limitation can be somewhat overcome because Brutus, Gill and Duniewicz (2010) suggest that gaining a clear understanding of the context in which a study takes place helps to generalize to other similar contexts. Specifically, the authors stress the primacy of the generalizability of the independent variables over the generalizability of the sample. This suggestion is applicable to this dissertation because a detailed understanding of the different types of variables used offers the possibility of generalizing the results of the study to other similar contexts.

In this study, some internal validity concerns may arise due to the operationalization of the performance evaluation score. Two specific concerns are: 1) the assumption that supervisor evaluation scores reflect actual productivity, and 2) by using secondary data provided by the firm, the reliability of the performance evaluation score has not been tested. However, the use of
supervisor evaluations as a proxy for performance, while controversial, has been widely used in research and furthermore is necessary for research in industries where productivity is not readily measurable due to its intangible nature of performance in service industries. While obtaining an objective measure of productivity in a service industry may be elusive, the performance evaluation score in the specific case of the firm used in this dissertation is the result of an assessment by both supervisor and subordinate as to whether jointly established goals were actually met. Therefore, the achievement of established goals should be mapped onto performance evaluation scores and may be considered a measure of productivity.

While firm generated performance evaluation scores have not been tested for reliability, these performance evaluation scores, and not performance evaluations with established reliabilities, are the ones considered in the pay-for-performance HR policies established by the organization. In other words, while from a research perspective measurement instruments are expected to be validated, objective career success is based in part on non-validated performance evaluation measures as the ones to be used in this dissertation. Therefore, testing the extension on the human capital theory of career success with the performance evaluation scores as actually used by the firm offers a more natural test of the proposed model.

An inherent limitation to this study is its cross-sectional design. Cross-sectional designs do not allow for causal inferences therefore limiting the inferences from the study to conclusions regarding the proposed relationships. While stronger causal inferences could be made using a longitudinal design, the cross-sectional design used in this study offers a first step in testing the proposed model. Furthermore, the results from this research may serve to better inform how relationships interact as well as their boundary conditions before developing a more dynamic
model and hypothesizing how changes in human capital may influence changes in performance evaluations and consequently changes in career success.

**Future Research Directions**

The extension of the human capital theory of career success, as proposed in this dissertation, lends itself for future testing using a longitudinal design in order to dynamically test the relationships proposed in this dissertation. Specifically, researchers may investigate how changes in human capital influence changes in performance evaluation scores and consequently changes in objective career success. A longitudinal design can overcome some of the imitations of cross-sectional designs by dynamically testing theory (Pitariu & Ployhart, 2010; Ployhart & Vandenberg, 2010).

Another avenue for future research is to gain a better understanding of how different competencies are developed by the alternative forms of human capital and how those competencies become mapped on performance evaluation scores and consequently objective career success. For example, political skill may be developed through formal education, training, and/or tenure and consequently influence performance evaluations as well as compensation.

Finally, prior research indicated that the antecedents for objective career success are different than those for subjective career success (Ng, Eby, Sorensen, & Feldman, 2005). Future career research can focus on explaining how human capital development and performance valuations influence not only objective career success, but also subjective career success.

**Conclusion**

This dissertation extends human capital theory beyond the traditional economic rational perspective to include the influence of managerial policies and practices as well as the influence
of socio-cultural and institutional pressures. Specifically, this dissertation explains how
human capital influences objective career success of managers and non-managers in a socially-
rich environment such as Ecuador, a Latin American region relatively neglected in the current
literature. This contribution resonates well with the argument of Thomas and Inkson, and Ituma
and Simpson that “in order to better understand individual’s career needs, we must progress
beyond the individualistic and de-contextualized models offered by the majority of studies and
develop a more complex interpretation, which acknowledges the interplay between individual
careers and the wider institutional and national cultures” (Ituma & Simpson, 2006, p. 992).
LIST OF REFERENCES


Vita

MARIO HAYEK
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EDUCATION

Ph.D. Candidate—Management—expected graduation June, 2011
University of Mississippi—Oxford, MS
Outstanding doctoral student of the year award 2010/2011

M.B.A.—Finance and Entrepreneurship—1995
American University, Washington D.C.

B.B.A.—Marketing—1993
Marymount University, Arlington, VA

DISSERTATION TOPIC


PEER-REVIEWED JOURNAL PUBLICATIONS


**CONFERENCE PRESENTATIONS**


**RESEARCH IN PROGRESS**

**Hayek, M.** & Salem, R. *A Conversation with the Pizza Princess: Diane Barrentine on Entrepreneurial Leadership*, revise and resubmit.

**TEACHING EXPERIENCE**

*University of Mississippi, Oxford, MS – spring 2010 to present.*

Spring 2011, *Strategic Management* (undergraduate capstone course)
Spring 2011, *Principles of Management*
  Teaching evaluation: available in May 2011
Fall 2010, *Strategic Management* (undergraduate capstone course)
  **Teaching evaluation: 4.23 on a 5-point scale** (Comparative reference group: 3.75)
Spring 2010, *Strategic Management* (undergraduate capstone course)
  **Teaching evaluation: 4.33 on a 5-point scale** (Comparative reference group: 3.88)

*Universidad San Francisco de Quito, Quito, Ecuador -- 1999 to 2008.*

Courses Taught in English and Spanish:


Courses Taught On-Line

- Financial Markets and Institutions, Investments and Risk Management and Project Management (for over six years).

Seminars Delivered

Taught seminars on entrepreneurship, motivation, business plan writing and project management at the graduate and undergraduate level in various provinces of Ecuador as well as via teleconferencing for the USFQ Graduate School.

Program Development: New Venture Creation and Entrepreneurship Center

Developed an experiential learning exercise where students write business plans and then establish their new ventures on campus for a period of seven days. This project began with one class in the business school approximately five years ago resulting in sales of $2,000. Currently this project integrates students from across disciplines and in 2009 produced over $130,000 during a seven-day period. A portion of the profits is used to sustain the entrepreneurship center.

Entrepreneurship Center Development

Created an entrepreneurship center to serve both students and the local community. The purpose of the entrepreneurship center is to offer advice and support to nascent entrepreneurs as well as
small and medium size enterprises in the local community. A unique feature of the entrepreneurship center is that it is financially self-sustaining by obtaining funds from a portion of the profits produced by the new ventures created by the students each semester.

Guest Lecturing
Invited by Babson College to co-teach a train-the-trainers course in entrepreneurship in April 2008 in Guayaquil, Ecuador.

PROFESSIONAL SERVICE

Professional Affiliations
- Academy of Management
- Southern Management Association
- Project Management Institute (Project Management Professional certified by the Project Management Institute)

Professional Activities
- Session Chair, Entrepreneurship/Information Technology/Innovation Track of the Southern Management Association Conference, 2009
- Discussant, Organizational Behavior Track of the 2009 Southern Management Association Conference, 2009
- Reviewer, Southern Management Association Entrepreneurship/Information Technology/Innovation, 2009
- Reviewer, Southern Management Association Management History/Management Education, 2009
- Ad Hoc Reviewer, Journal of Management History
- Ad Hoc Reviewer, Journal of Business Ethics

WORK EXPERIENCE

VENTURE CAPITALIST (Co-owner of 75%)
Ecuador In Situ, Quito, Ecuador – 2006 to present
Online tour operator business.

VENTURE CAPITALIST (Co-owner of 50%)
Termino 1/2, Quito, Ecuador – 2006 to 2009
Hospitality business.

OWNER/GENERAL MANAGER
Sociedad Haymiq Compania Limitada, Quito, Ecuador – 1998 to present
Developed Sociedad Haymiq from one restaurant in 1998 and diversified it to include a motel, a tour operator (affiliated to IATA), a bar, and a commercial real estate developer and operator.
CONSULTANT
*Big Branch, Quito, Ecuador, June 2007*
Business valuation.

*New Access, Quito, Ecuador, May 2007*
Financial analysis for US investors.

*SATEMO, Quito, Ecuador, October to December 2002*
Financial valuation for two merging chemical companies.

PARTNER (50%)/ FACTORY MANAGER
*Fabriplast, Quito, Ecuador -- October 1997 to May 1998*
General manager responsible for overseeing production, quality control, human resources, purchases, and inventory control in this recycled low density polyethylene plastic factory.

PARTNER/ GENERAL MANAGER
*La Cocina De Kristy and Café K, Quito, Ecuador -- February 1997 to September 1997*
Business development of this new venture.

CONSULTANT
*Cosideco, Quito, Ecuador -- December 1996 to February 1997*
Business plan development.

STOCK BROKER
*Americorp Securities, New York USA -- November 1995 to December 1996*
Obtained Series 7 and 63 licenses. Portfolio management.

CERTIFICATES
- Babson Symposium for Entrepreneurship Educators Argentina, 2007
- Project Management Professional (PMP), October 2005

PROFESSIONAL SEMINARS ATTENDED
- Testing Interactions with Linear Regression, Center for Advancement of Research Methods and Analysis (CARMA), Virginia Commonwealth University, 2009
- Meta Analysis: Models and Processes, Center for Advancement of Research Methods and Analysis (CARMA), Virginia Commonwealth University, 2009
- Project Management, CFC, Quito, Ecuador 2005
- Project Management, CFC, Quito, Ecuador 2004
- Financial Statement Analysis, CEFE, Quito, Ecuador 1994
- Budgeting, CEFE, Quito, Ecuador 1994
• Marketing, CEFE, Quito, Ecuador 1994