Strategic HRM and Performance
To my beloved parents, Khalil and Ghada, and my wonderful brothers, Fadi and Maher.
TABLE OF CONTENTS

List of Figures and Tables ................................................................................................. ix

Chapter One ......................................................................................................................... 1
Introduction

Chapter Two .......................................................................................................................... 7
Theorising Strategic HRM and Performance
   Strategic Human Resource Management ........................................................................ 8
   The Departure from HRM to Strategic HRM ................................................................. 9
   The Concept of Organisational Performance ............................................................... 11
   Human Resource Management & Organisational Performance .................................. 13
   Theoretical Perspectives on SHRM & Organisational Performance ......................... 18
   SHRM and the Resource-based View of the Firm ......................................................... 21
   Theoretical Challenges on HRM-Performance link ..................................................... 22
   Summary of Key Points on HRM-Performance link .................................................. 24

Chapter Three ...................................................................................................................... 27
Core Aspects of SHRM and the Role of the HR Director
   Strategic HR Involvement/Integration ......................................................................... 27
   HR Devolvement ........................................................................................................... 28
   The Role of the HR Director ....................................................................................... 29
   Summary ....................................................................................................................... 33

Chapter Four ......................................................................................................................... 35
Theoretical Framework of SHRM and Performance
   Theoretical Framework and Central Propositions ......................................................... 36
   Human Resource Management Practices ...................................................................... 36
   Organisational Performance and the Mechanism of HRM-Performance Link ............. 42
   Core Aspects of Strategic HRM and Financial Performance ....................................... 43
   The Complementarities of HR Practices & Financial Performance ............................ 46
   Control Variables on the HRM-Performance Link ..................................................... 47
   HR Practices and Perceived Financial Performance .................................................. 47
   The Role of the HR Director ...................................................................................... 48
   Theoretical Model of HRM-Performance Link ........................................................... 50
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Context of Applied Work</td>
<td>51</td>
</tr>
<tr>
<td>Summary</td>
<td>53</td>
</tr>
<tr>
<td>Chapter Five</td>
<td>55</td>
</tr>
<tr>
<td>Discussion, Synthesis and Conclusions</td>
<td></td>
</tr>
<tr>
<td>Propositions and Main Findings</td>
<td>55</td>
</tr>
<tr>
<td>Conclusions</td>
<td>68</td>
</tr>
<tr>
<td>Bibliography</td>
<td>81</td>
</tr>
</tbody>
</table>
LIST OF TABLES AND FIGURES

Table 2.1: The transition from traditional HRM to strategic HRM ........... 10
Figure 2.1: HRM activities, HRM outcomes and performance ............... 16
Table 3.1: List of HRM-performance propositions ................................... 49
Figure 3.1: Theoretical framework of SHRM and organisational
performance ................................................................................................. 50
CHAPTER ONE

INTRODUCTION

The field of human resource management (HRM) has travelled a long path from its humble beginning as personnel management where the job of personnel manager was concerned with recruitment and keeping track of payrolls, promotions and other routine personnel issues. The modern field of strategic human resource management (SHRM) is attracting a great deal of attention owing to its potential impact on the functioning of organisations. There is now an evolving belief that, if organisations wish to survive and compete in the present-day knowledge-based global economy, they have to acquire, develop, and accordingly manage world-class human resource competencies and practices. This belief has led to research focusing on the impact of HRM/SHRM - also known as the HRM-performance link or the HRM-performance debate\(^1\) - on organisational performance.

Over the course of many decades, the field of HRM has attracted much attention across various disciplines owing to its contribution to and impacts on the bottom-line issues within organisations. Ostensibly, when compared to earlier forms of people management, the essence of HRM was a closer alignment of the procedures and processes concerned with work and employment relationships with overall organisational objectives (Bratton and Gold, 2012, p. 50). Hence, scholars have consistently attempted to understand the impacts of HRM practices on organisational performance, often taking one of two perspectives: the systems perspective or the strategic perspective. The former of the two perspectives has its roots in the study of the effects of specific HRM practices, such as training (Bartel, 1994) and information-sharing (Morishima, 1991), on firm or employee performance. However, the debate has now shifted towards a more integrated management approach of investigating how the overall set of HRM practices may ultimately contribute to the competitive advantage of the organisation (Delery and Doty, 1996). This transition reflects the importance of human capital in terms of gaining competitive advantage and achieving organisational performance.
Markedly, the strategic perspective has taken on different meanings in the literature. One particular approach has focused on the fit between various HRM practices and the competitive strategy of the organisation (e.g. Miles and Snow, 1984). Embedded in this view is the statement that organisations should align their HRM practices with their strategic goal, and that such practices should develop employee skills, knowledge and motivation such that employees behave in ways considered supportive of a particular strategy (Dyer and Reeves, 1995; Andersen, 2011). Another approach has adopted a more contingent view, assuming that the effectiveness of an HR system rests on the contextual factors, including the political system, industry, firm size, etc. (Paauwe and Boselie, 2005). A related approach - the resource-based view (Wernerfelt, 1984; Barney, 1995) - suggests that HRM contributes to organisational performance by leveraging human capital, discretionary effort, and desired attitudes and behaviours (Becker and Gerhart, 1996). The underlying assumption is that HRM practices are socially complex and intricately linked, thus making them an integral part of the organisation: unique, non-substitutable, and very difficult to imitate (Barney, 1995).

Both the systems and the strategic perspectives contribute to the understanding of how HRM practices and their influence on employees, attributes and behaviours can lead to desirable performance outcomes at the organisational level. However, research evidence thus far has only partially verified these effects (Pfeffer, 1994, 1998). Although a number of studies provide evidence of some form of link between HR practices and organisational performance, strong and consistent evidence that SHRM does indeed positively impact on performance is lacking. The literature survey confirms the observations made by some scholars (see, for example, Paauwe and Boselie, 2005; Guest, 2011) that there is currently no clear theory on HRM and organisational performance, and there is also a dearth of data concerning the link between them. Importantly, the overall results garnered thus far are not encouraging and are, in fact, inconsistent.

An extensive review of the theoretical and empirical work conducted on the HRM-performance link shows some significant gaps in this area of research, as considered below:

First, there is no agreement amongst researchers concerning what HRM practices should be or on the number of practices that can enhance organisational performance. Almost each study in the HRM-performance link has utilised different combinations of HR practices; there is no
standard or semi-standard list of HR practices to be considered and measured in terms of the link with organisational performance. This has led to a call by some scholars for a specific theory on HRM in the first place (Paauwe and Boselie, 2005; Guest, 2011).

Second, as is the case with HR practices, there is no consensus amongst researchers regarding the measurement of organisational performance. Researchers have employed different performance indicators, mostly subjective, in different studies. It is strongly recommended in the HRM literature that HR researchers use multiple performance measures to cover the multiple goals of HRM and different parties that have been involved either within or outside of the organisation. It would be more rewarding if researchers also employed some objective measure to reduce the probability of common method variance (Wall and Wood, 2005) and to avoid misleading normative and descriptive theory-building (Lumpkin and Dess, 1996).

Third, the mechanism that has been used in HRM-performance link is also considered inconsistent; some researchers have examined the relationship directly whilst others have examined it indirectly through different mediating variables (e.g., employee turnover and employee productivity).

Fourth, several works have tested the impact of individual HR practices on performance, whilst others have examined the impact of bundles or complementarities of whole HR practices on performance. It has been argued that it is an interrelated system of HR practices that enhances performance, with one practice encountered on its own not having the same result as when encountered in combination with others (Ichniowski and Shaw, 1999). HR, as a system or a combination of practices, certainly seems a better approach when researchers seek to scrutinise the impact of such practices on firm-level performance (Delaney and Huselid, 1996). However, as no strong and compelling evidence of the effect of HR systems/bundles or the internal fit of HR practices on performance has so far been found, Panayotopoulou et al. (2003) claim that HRM-performance research has failed to consistently support the effectiveness of such an argument.

Fifth, the core aspects of strategic HRM - strategic HR involvement and HR devolvement - are not sufficiently explored in the HRM-performance link. Strategic HR involvement and devolvement is intimately
linked with the adherence to the notion of strategic HRM. It is said that the strategic nature has taken the shape of HR directors becoming involved in the overall strategic management process and board meetings, and also being allowed to devolve routine HR issues to line managers, leaving them free to concentrate more on strategic issues of long-term importance (Carroll, 1991; Wright and Boswell, 2002). Several authors have evaluated the level of HR involvement and devolvement in organisations as they believe that such issues contribute positively to the performance of the company. Nevertheless, the impact of such variables on performance has not yet been explored sufficiently in HRM studies.

Finally, almost all of the studies concerning the impacts of HRM practices on firms’ performance have been conducted in the US and the UK; hence, HRM researchers argue that it is difficult to make generalised conclusions from current HRM-performance results, and that there is therefore the need for further empirical investigations from different angles.

Based on the aforementioned important issues relating to the HRM-performance debate, the present book aims to fill these apparent gaps by conducting an in-depth theoretical and empirical analysis of the HRM-performance link. The primary aim of this book is to contribute to our general understanding of the impacts of SHRM on organisational performance and, in the process, build a theoretical framework to empirically test this relationship.

With the help of an extensive theoretical review of the HRM-performance link and some recent research findings, the book objectives can be stated as follows:

1. This book aims to contribute to the general understanding of the HRM-performance relationship, and to provide some important implications and recommendations that may be useful for both academics and practitioners.

2. By thoroughly reviewing the HRM-performance literature, this book intends to arrive at a better understanding of the HRM-performance link by choosing a specific mixture of strategic HR practices that are expected to impact firms’ performance. It also explores the multi-dimensional concept of performance, taking into consideration subjective and objective measures to cover the multiple goals of
HRM. It also seeks to shed new light on the relationship between subjective and objective measures of organisational performance, and the relative reliability of the former in assessing the effectiveness of HR practices. Further, it explores both the direct and indirect impacts of HR practices on organisational performance.

3. A number of HRM researchers argue that logical combinations of HR practices in a systems or bundles approach are difficult for competitors to imitate and are more valuable than a single practice in isolation. It is held that the systematic adoption of related sets of HR practices - rather than a single “magic bullet” on its own - will have the most pronounced effect (Ichniowski and Shaw, 1999). This book aims to theoretically and empirically deliberate such an argument.

4. There is an implicit undercurrent in the HRM literature that the role of the present-day HR director has become more strategic as opposed to carrying out routine functions that personnel managers have performed until recently. Hence, this book takes a closer look at the strategic role player by HR directors in financial enterprises in the wake of these firms’ attempts to enhance their organisational performance.

5. This book also explores the core aspects of strategic HRM as represented by the concepts of strategic HR involvement and HR devolvement, and their possible effects on organisational performance.

Notes

CHAPTER TWO
THEORIZING STRATEGIC HRM
AND PERFORMANCE

Human resource management (HRM) is still a relatively immature field, which has moved through a rapid evolution and development. As the literature shows, there is, as yet, no consensus on the definition of HRM (see Collings and Wood, 2009; Paauwe, 2009). Some authors have focused on the HR department’s effectiveness (Teo, 2002), whilst others have focused on HRM in terms of skills, knowledge and competencies (Hitt et al., 2001). However, the majority of studies and books in the field of HRM have defined the concept in terms of individual practices or a bundle of practices. According to Noe et al. (2006), HRM refers to the practices and policies affecting employees’ behaviours, attitudes and performance. They have focused on several important practices which, in turn, could positively impact organisational performance, such as HR planning, recruiting, selection, training and development, compensation, performance management, and employee relations. Furthermore, Way (2002) has considered the following as the most commonly applied practices in the literature: staffing, compensation, flexible job assignment, teamwork, training and communication.

In addition, the majority of the empirical work conducted in regard to the HRM-performance link has concentrated on the sixteen best human resource management practices proposed by Pfeffer. Indeed, the logic behind such practices is that, the greater the use of the sixteen practices, such as training and skill development, promotion from within, participation and employment, and information-sharing, the greater the productivity and profitability across all organisations, regardless of their contexts and conditions (Pfeffer, 1994). In his article entitled ‘Seven practices of successful organisations’, Pfeffer reshapes these practices into seven HRM practices; these practices are expected to enhance organisational performance and enable the organisation to gain a
competitive advantage (Pfeffe, 1998). Such practices are detailed as follows:

1. Employment security.
2. Selective hiring of new personnel.
3. Self-managed teams and decentralisation of decision-making as the basic principles of organisational design.
5. Extensive training.
6. Reduce status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels.
7. Extensive sharing of financial and performance information throughout the organisation.

However, different studies have focused on different HR practices when examining the impact of HRM on organisational performance and, as the literature shows, it is rare to find two studies that have used the same HR practices. As a result, one of the most important gaps in the HRM-performance link is the absence of a consensus on what combination of HR practices is able to enhance organisational performance (Paauwe, 2009; Guest, 2011). Even if researchers have employed the same practices, the underlying meaning of the practice may be completely different. As a result, there is a call for a specific theory on HRM in the first place, and researchers and practitioners have thus been urged to pay particular attention to filling this gap.

**Strategic Human Resource Management**

Over the last couple of decades, significant contributions have been well documented in the literature, dealing with issues related to the management of people. HRM has received much attention as a distinct approach to managing employees effectively and efficiently. However, Delery and Doty (1996) criticise the initial research in the field of HRM as 'micro analytic' as it focused on specific issues and effects on organisations. During the last decade, researchers have produced a new generation of theoretical and empirical work linking human resource management with business and corporate strategies and have measured its impact on the overall organisational performance level, rather than simply on employees' performance level. As a result, the current interest in SHRM has been developed by researchers in the field.
In spite of the growing consideration and attention afforded to SHRM, the concept, to some extent, remains vague and unclear. SHRM has been defined as ‘the pattern of planned HR deployments and activities intended to enable the organisation to achieve its goals’ (Wright and McMahan, 1992, p. 298). Likewise, Wright and Snell (1991) define SHRM as ‘organisational systems designed to achieve sustainable competitive advantage through people’. Ulrich and Lake (1991) describe SHRM as a process wherein HR practices and business strategy are linked. More generally, Truss and Gratton (1994) define SHRM as the alignment of HRM with strategic goals and objectives so as to perk up organisational performance and thereby promote an organisational culture that fosters innovation and flexibility. Regardless of the absence of a precise and clear definition of SHRM, its essential core idea is to link and integrate the HR function with the overall strategic direction of the organisation to improve organisational performance and thus gain a sustainable competitive advantage.

In addition, many researchers have criticised the foundation of SHRM theory and have accordingly called for a new formulation of the theory. There are two main reasons for this criticism: firstly, as stated earlier, HRM is continuing to face criticisms surrounding its theoretical foundation, and it is therefore unsurprising that SHRM has a poor theoretical basis as it has been building on the HRM theory; secondly, as recognised by Delery and Doty (1996), the SHRM field has been approached from the perspective of numerous theories, such as resource-based view of the firm, contingency theory, human capital theory, resource-dependence theory, and behavioural theory, and there is thus a lack of emphasis on the differences within such theories.

The Departure from HRM to Strategic HRM

The underlying logic behind HRM and firm performance is the belief that a fundamental strategic shift has taken place in the field of HRM which is causing firms to perform better. Authors distinguish traditional HRM from SHRM in two important ways (Delery and Shaw, 2001; Brian and Huselid, 2006). First, SHRM focuses on an organisational performance level rather than on an employee or individual performance level. Recently, many studies on the HRM-performance link have focused on organisational and financial performance indicators rather than employees’ behavioural indicators. For instance, those studies measured firms’ performance by profit, market share, quality and product development,
return on investment, and return on assets; hence, the strategic perspective in HRM is looking at business, firm or the whole industry level, which has made the field more attractive and important than it has previously been.

Second, SHRM researchers have examined the impacts of HR practices as bundles or synergies of the entirety of HR practices on organisational performance, whilst traditional HRM has focused only on the impact of individual practices on employee performance. The logic behind SHRM theory is that the HR system is the appropriate level of analysis when researchers seek to examine the effect on firm-level performance (Delaney and Huselid, 1996). In addition, HR, as systems or bundles, must generate greater effects than the individual human resource practices, simply because the whole is greater than the sum of its parts and, as suggested by Barney (1995), individual HR practices in isolation are limited in their ability to gain a competitive advantage. Table 2.1 summarises the main ways in which SHRM departs from HRM as seen in the literature.

**Table 2.1: The transition from traditional HRM to strategic HRM**

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<th>Traditional HRM—(Micro HRM)</th>
<th>Strategic HRM—(Macro HRM)</th>
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<tr>
<td><strong>Level of Analysis</strong></td>
<td>Individual, team or group level (for example, studying the effects of recruitment, selection, incentives and training on the employees’ or teams’ performance.)</td>
<td>Business unit / organisation level / industry and country level.</td>
</tr>
<tr>
<td><strong>HRM practices</strong></td>
<td>Studying the impact of the individual HRM practices.</td>
<td>Studying the impact of the whole HRM practices as bundles or complementarities of practices.</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>Individual employees’ performance (for example, job satisfaction, absenteeism, retention, employees’ commitment).</td>
<td>Organisational level (productivity, financial and market indicators).</td>
</tr>
<tr>
<td><strong>Type of Fit</strong></td>
<td>Person-environment fit. Person-organisation fit.</td>
<td>Internal or horizontal fit. External or vertical fit.</td>
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Source: Developed by the author
The Concept of Organisational Performance

Organisational performance is one of the most broadly and extensively-used dependent variables in organisational studies today, and yet, at the same time, it remains one of the most imprecise and loosely-defined constructs (Rogers and Wright, 1998). In the strategy literature, the focus of attention on this construct has been concerned almost entirely with financial measures of performance (Rowe et al., 1995). Conceptually, organisational performance has been defined as the comparison of the value produced by a company with the value owners expected to receive from the company (Alchian and Demsetz 1972). Venkatraman and Ramanujam (1986) indicate that a narrow definition of performance ‘centres on the use of simple outcome-based financial indicators that are assumed to reflect the fulfilment of the economic goals of the firm’ (1986, p. 803).

For many years, researchers have been struggling to establish a clear and precise meaning for organisational performance, which extends not only to the field of human resource management but also to many other fields (Rogers and Wright, 1998). For instance, in his review of the measures of organisational effectiveness, Scott concludes the following: ‘After reviewing a good deal of the literature on organisational effectiveness and its determinants, I have reached the conclusion that this topic is one about which we know less and less’ (1977, p. 63).

The literature reveals that studies into the HRM-performance link have, as yet, not determined a specific and precise meaning for the organisational performance construct. Some studies have used subjective measures to evaluate firms’ performance, such as employee satisfaction, customer satisfaction, executives’ perceptions about the company’s performance, absenteeism, employee commitment, and other behavioural aspects. Other studies reference various objective measures for evaluating firms’ performance, such as financial and market indicators. As a result, there is no common theory concerning organisational performance, and researchers utilise different indicators or variables to measure this construct. For this reason, there is also a call for a precise theory of organisational performance (Janssens and Steyaert, 2009; Guest, 2011), and HRM researchers and professionals might give crucial and special consideration to filling such a gap.
In HRM-performance research, the performance outcomes of HRM can be viewed in different ways. HRM researchers have mostly referred to Dyer and Reeves’ (1995) classification of performance outcomes as follows:

1. HR-related outcomes, such as turnover, absenteeism, job satisfaction, commitment.
2. Organisational outcomes, such as productivity, quality, service, efficiencies, customer satisfaction.
3. Financial accounting outcomes, such as profits, sales, return on assets, return on investment.
4. Capital market outcomes, such as market share, Tobin’s q, stock price, growth.

Researchers have held various different points of view and theoretical perspectives when dealing with such a classification. Notably, some HR scholars have directly measured the impact of human resource practices on financial or market outcomes without consideration of organisational and HR-related outcomes. On the other hand, others have measured the impact of HRM practices indirectly through the HR-related and organisational outcomes. In actual fact, Dyer and Reeves (1995) propose that HR strategies most probably do directly affect the HR-related outcomes, followed by organisational, financial and market outcomes. The logic behind this is that HR practices have their most direct impact on employees’ behaviours and attitudes which, for example, will result in low turnover rate and higher satisfaction, which in turn will generate high organisational and financial outcomes. This issue will be discussed in detail in the next section, which explores the HRM-performance link.

Some authors, such as Paauwe and Boselie (2005), emphasise the multi-dimensional concept of organisational performance in the case of future HRM-performance research. This concept means that researchers may use multiple measures of performance to cover the multiple goals of HRM and the different parties that have been involved within or outside the organisation. In addition, they have affirmed the role of financial measures as strong indicators of organisational performance.
Human Resource Management and Organisational Performance

The theoretical and empirical work on the added value of HRM/SHRM, also known as the HRM-performance link or HRM and performance debate, demonstrates the significant effects of HRM on organisational performance. Nevertheless, there remains a need for additional studies to support and sustain the HRM-performance link, and there is also a need for more empirical work from different angles. This section illustrates and explains the nature of the linkage between HRM and organisational performance.

The Nature of the HRM-Performance Link

Since the notion of the HRM-performance link has emerged, two research streams have been developed to examine the relationship between HRM and performance. The first is based on the direct relationship between individual HR practices and/or bundles or systems of practices and organisational performance (see Schuler and Jackson, 1999; Chand and Katou, 2007). The second research stream is based on the indirect relationship between individual HR practices and/or bundles of practices and organisational performance (Wright and Gardner, 2003).

The Direct Relationship between HRM and Performance

Studies on the HRM-performance link suggest that specific HR practices can lead to competitive advantage and, as a result, can enhance organisational performance. These specific practices, geared toward helping firms achieve better results, have been assigned different terms by different researchers, such as ‘best practices’ (e.g., Pfeffer, 1994), ‘high performance work system (HPWS)’ (e.g., Becker and Huselid, 1998; Guthrie et al., 2009), ‘high-involvement practices’ (e.g., Lawler, 1986; Guthrie, 2001), and ‘high commitment practices’ (e.g., Arthur, 1994; Wood and De Menezes, 1998). However, all the above terms are different in terms of the HR practices they include since any combination of HR practices essentially encompasses an element of selectivity (Brewster et al., 2008). Regardless of the names given to different sets of HR practices, all have the same notion which is that such specific HR practices will lead to better organisational performance in any context. In other words, a particular set of HR practices can improve organisational performance for all organisations regardless of the industry and environment or context. In
actual fact, some researchers supporting such approaches have highlighted various positive effects of HR practices on organisational performance.

In addition, some researchers have examined the impact of individual HR practices on organisational performance, whilst others have examined the bundles or complementarities of the entirety of HR practices on performance. The logic behind the bundling notion is that HR as a system or a bundle of practices is the appropriate level of analysis when researchers want to examine the effect on firm-level performance (Delaney and Huselid, 1996). Thus, as suggested by authors who adopted this approach, HR as a system or a bundle should generate greater effects than individual human resource practices simply because the whole is greater than the sum of its parts. For instance, recruiting and selecting good employees without training them, or training and developing them without giving them the authority to take decisions, may have smaller effects, whereas implementing the three practices together might have a greater effect (Wall and Wood, 2005). Barney (1995) argues that individual HR practices are limited in their ability to secure competitive advantages for firms.

Despite the progress achieved by researchers thus far in terms of measuring HR practices, as stated previously there is no consensus amongst researchers on what such practices might be or the number of practices that might enhance organisational performance. They only agree that such practices will lead to better performance for all types of organisations.

**The Indirect Relationship between HRM and Performance**

In the second path of this research stream, researchers have criticised the way in which HRM impacts on organisational performance, arguing that, be they individual or in a bundle, HR practices do not directly affect firm performance (Katou and Budhwar, 2006). Moreover, HR practices could directly impact some mediating variables which, in turn, affect firm performance; this is what can be termed the ‘black box’ in HRM-performance research. Some researchers have started looking and searching inside the ‘black box’ for a better understanding of which HR practices might impact firm performance most significantly (see, for example, Way, 2002; Katou and Budhwar, 2006). This addresses the call by some HR authors for the exploration of a new theoretical framework with different mediating variables. They have called upon HRM researchers
to conduct studies on the ‘black box’ to find an effective HRM-performance link mechanism that can help academics and professionals to clearly understand the relationship between HRM and organisational performance.

Figure 2.1 provides a visual representation of the most important variables that might be involved in the HRM-performance mechanism. Given the complexity of this relationship, it is not surprising that researchers have recommended additional studies to explore the HRM-performance link, and have called for more empirical work from different angles.

Looking at the previous figure, it can be noted that it did not take into consideration the possible impacts of external factors on the HRM-performance relationship. All the factors set out in Figure 2.1 can be considered internal factors. Although external factors can have considerable impacts, especially on the performance of companies, previous studies have largely focused on the internal factors when investigating the HRM-performance relationship. Furthermore, although a number of measures have been suggested for measuring organisational performance, in actual practice measuring what actually contributes to performance is fraught with difficulties. Internal variables include a host of factors, such as employee satisfaction, employee commitment, employee motivation, R&D, leadership, employee turnover, and social climate. The positive outcomes of HR practices are displayed, for instance, in increased motivation and commitment, thus resulting in lower employee turnover, which in turn could result in higher organisational performance. Additional internal factors that are usually taken as given or sometimes included in studies are the age, industry and the size of the organisation.
Figure 2.1: HRM activities, HRM outcomes and performance

HRM activities
- Recruitment/ Selection
- HR planning
- Rewards
- Participation
- De-centralisation
- Training
- Opportunity for internal promotion
- More autonomy
- Formal procedures
- Coaching
- Internally consistent HR ‘bundles’

HR outcomes
- Employee satisfaction
- Employee motivation
- Employee turnover
- Employee absenteeism
- Social climate
- Employee involvement
- Trust
- Loyalty/ commitment

Performance
- Profit
- Market value
- Market share
- Increase in sales
- Productivity
- Product/service quality
- Customer satisfaction
- Development of product/service
- Future investment

Contingency and / or control variables:
- Organisational level: (for example age, size, technology, capital intensity, degree of unionisation, industry)
- Individual employee level: (for example age, gender, education level, job experience, nationality)

Source: Paauwe and Richardson (1997)
External factors, on the other hand, include two sets of variables: one is specific to an organisation, including demand condition for its product, market structure, and competitive environment in which it operates; the second comprises national and institutional factors, including political, economic, social, and technical environment, financial and real regulation, antitrust laws, industry incentives, free trade, foreign investment, and macroeconomic policies. External variables not specific to an organisation are symmetrically distributed in the sense that they apply in equal measure to all organisations, and can be taken as given in any study (under the *ceteris paribus* clause). Internal factors vary from one organisation to the next, and are not easily visible to outsiders. Importantly, a cluster of these variables forms the contents of the black box and impact on the profitability of the organisation. It is these not completely visible internal factors that cause persistent profit differentials that are the subject of much research into understanding the performance of competitively advantaged organisations; however, despite diligent efforts, as yet approximately 40 per cent of the variation in profit differentials remains unexplained (Rumelt, 1991; McGahan and Porter, 1997). Owing to the difficulties in capturing the degree of their effect, researchers in Economics and Strategy fields did not include the internal factors in their studies on profit variations amongst organisations. This was a field left open for HR specialists to explore, and they implicitly theorised that the imaginative application of HR practices can result in improved performance for the organisation, and that this can shed light on the unexplained variance in equations. A review of studies in the HRM-performance field shows that HR specialists have been only partly successful in their endeavours. Given the complexity of the ever-changing internal and external environment - the latter also often impacting on the former - the partial success of HR specialists is not difficult to explain.

In an ideal situation, in order to accurately measure the effect of HR practices on performance, the individual effects of all the internal and external factors should be taken into account. In a multivariate equation approach, for example, the size and sign of coefficients would tell us the importance, or absence thereof, of each factor’s effect on performance. However, given the number of practical difficulties, it is not possible to measure the effect of all internal and external factors on organisational performance. The most important of these difficulties, clearly, is the availability of reliable data pertaining to external factors in particular. As a result, studies concerned with the effects of HR practices on organisational performance are conducted under the implicit assumption of the *ceteris*
paribus clause. What this clause means is that, owing to external factors (such as the macroeconomic policies of a country, for example), all firms are impacted in a symmetric way, with their overall impact taken as being constant for all firms. With the implicit declaration of this clause, researchers can focus on measuring only the effects of the internal policies on performance. In this regard, one could argue that, in doing so, researchers implicitly subscribe to the notion that measuring the effect of HR practices on organisational performance is an inexact science. However, because all firms are influenced in a similar manner by external factors, the effect of all the internal factors on performance can be captured, which then provides a fairly good measure of the impacts of HRM practices on performance. However, upon closer examination during the literature survey it was discovered that most studies conducted on the HRM-performance nexus have not been able to take into account all internal factors. Secondly, in order for the results to be accurate, all firms in a particular sector should be accounted for, which is often not the case. Thirdly, the literature review also reveals that only a limited number of controls (firm size, age, etc.) have been included in the studies. A final associated point concerns the time factor, with most studies having been carried out at one point in time, therefore resulting in static analysis. In order to make the results dynamic, data for multiple years - at least the performance data - should be accounted for, even if the data on HR practices are collected at only one point in time.

**Theoretical Perspectives on SHRM and Organisational Performance**

Delery and Doty (1996) have identified three groups of researchers and the perspectives they have followed in theorising SHRM. They have labelled the first group of researchers ‘Universalists’, mainly because of their interest in terms of identifying HRM ‘best practices’. Moreover, they have identified the second group of researchers as those adopting a contingency approach (external fit or vertical fit). These researchers claim that the success of HRM practices is contingent upon the achievement of a match between HR practices and other issues of the organisation, such as business strategy. Finally, Delery and Doty (1996) identify the third group of researchers as those adopting a ‘configurational’ approach. The following sections discuss these approaches in some detail.
Universalistic Approach (Internal or Horizontal Fit)

The universalistic researchers hypothesise that a particular set of HR practices are always better than others, and that all organisations could adopt these practices in order to outperform their competitors. Researchers have assigned different terms to such best practices, such as high-involvement practices, high-commitment practices or high-performance work system. The rationale behind this is that the adoption of particular HRM policies is expected to produce a competitive advantage and accordingly result in increased organisational performance.

The universalistic theory has the ideal group of best practices (the so-called ‘best practices’), which will continuously generate superior organisational performance regardless of the circumstances and the industry. This approach emphasises that the internal fit of HR practices will result in better organisational performance. Pfeffer (1998) has claimed that the ‘best practices’ approach is based on the assumption that organisations should heavily invest in people because they are valued assets and the main source of competitive advantage. Pfeffer further identifies the following best practices, which are considered constantly capable of producing better performance: employment security; selectivity in hiring; self-management work teams; high compensation contingent on work performance; extensive training; reduced status differences; and information-sharing. The ‘best practices’ approach is based on the resource-based view (RBV) of the firm, which emphasises the role of internal resources as the key to gaining a sustainable competitive advantage (Youndt et al., 1996). RBV theory states that rare, valuable, inimitable and non-substitutable HR practices can lead to a competitive advantage.

Regardless of the attention paid to this particular approach, there are various disadvantages associated with the methodological and theoretical sides. With respect to the measurement and methodological issues, researchers disagree in terms of how an HR system should be determined as an integrated and synergetic HR practice that blends better in producing higher business performance (Delery, 1998). In addition, only successful and high-performing firms would consider themselves as taking the ‘best practices’ approach owing to their excellent results. Another problem concerns the choice of measures of performance, which are commonly narrowly focused on financial criteria, with few studies taking into consideration the broader issue of employee satisfaction, commitment and wellbeing. Furthermore, researchers are still confused about the issues of
research methodology, such as data collection methods, data analysis, and presentation of the results. Another issue concerns the difficulty for practitioners and some academics in understanding the highly complicated statistical techniques adopted in some studies (Gerhart et al., 2006). Finally, one of the important challenges facing researchers is the ‘operationalisation’ of the variables, as different researchers may use different definitions for the HR practices.

**Contingency Approach (External or Vertical Fit)**

The second group of theorists identified by Delery and Doty (1996) includes those researchers adopting a contingency approach (external fit or vertical fit). This group of researchers claims that the achievement of high performance is contingent upon the achievement of fit between HRM practices and other aspects of the organisation. In other words, organisations usually go through different stages in their life cycles, and HR practices may be contingent upon such stages. As a result, organisations could make changes in their business strategies, and HR practices could be linked with such approaches in order to achieve successful results. HRM practices could be adopted depending on the organisational corporate and business strategy (Schuler and Jackson, 1999). As a result, in the contingency approach, we must look first at business strategy and then at HR practices in order to improve business performance.

The contingency approach, however, is not without its critics. With regard to measurement and methodological issues, there are various problems relating to this approach. For instance, the problem related to multiple contingencies could make the measurement more difficult. If the environment is very dynamic and complex with multiple contingencies that cannot be isolated, HR practices could be changed continuously. Another problem is that organisations cannot treat employees consistently over time; treatment changes as a response to external pressures.

**Configurational Approach (Internal and External Fit)**

Delery and Doty (1996) identify the third group of researchers as those adopting the ‘configurational’ approach, claiming that this approach is more complex and comprises researchers who seek to identify configurations or unique ideal types of factors that are posited as being maximally effective. The rationale behind the ‘configurational’ approach