If a global company is to function successfully, strategies at different levels need to inter-relate.¹

Throughout the first half of our century and even into the early eighties, planning – with its inevitable companion, strategy - has always been a key word, the core, the near-ultimate weapon of 'good' and 'true' management. Yet, many firms, including Sony, Xerox, Texas Instruments, ...have been remarkably successful... with minimal official, rational, and systematic planning.²

Chapter outline

- Introduction p. 38
- Strategic management p. 38
- Hierarchy of strategy p. 42
- Strategic human resource management p. 46
- HRM and organizational performance p. 60

Chapter objectives

After studying this chapter, you should be able to:

1. Explain the meaning of strategic management and give an overview of its conceptual framework.
2. Describe the three levels of strategy formulation and comment on the links between business strategy and human resource management.
3. Explain the two models of strategic HRM, the matching model and the resource-based model.
4. Comment on the various strategic HRM themes of re-engineering, workplace learning, trade unions and leadership.
5. Explain the methodological difficulties of measuring the link between HRM practices and organizational performance.
Introduction

In the first chapter we examined the theoretical debates on the nature and significance of the new HRM model, in this chapter we explore various strategic issues associated with HRM. Just as the new HRM model is contested, so too is the notion of strategy. So before we look at some of the issues associated with the strategy–HRM concept, this chapter first examines strategic management concepts and framework and explores the links between business strategy and HRM. The second part of the chapter considers the problems associated with the ‘strategy’ element of the term ‘strategic HRM’ (SHRM) and some issues associated with strategic HRM. The third part concentrates on the HRM–organization performance link and the presumption that the workplace innovations associated with the new HRM model actually make a difference to organizational performance. This chapter addresses a number of questions, some essential to our understanding of how post-industrial organizations work, which the new HRM paradigm raises. How do ‘big’ corporate decisions impact on HRM? Does the evidence suggest that firms adopting a ‘strategic’ HRM approach experience superior performance? There is a common theme running through this chapter; much of the academic work points out that there are fundamental structural constraints that attest to the complexity of implementing the new HRM model.

Strategic management

The word ‘strategy’ was first used in English in 1656 and comes from the Greek noun ‘strategos’, meaning ‘commander in chief’. The development and usage of the word suggests that it is composed of stratos (army) and agein (to lead) and in its military context means ‘to produce large-scale operations’ (Aktouf, 1996, p. 93). The Oxford Dictionary defines strategy in terms of ‘generalship’. In a management context, the word ‘strategy’ has now replaced the more traditional term, long-term planning, to denote an activity that top managers perform in order to accomplish

![Figure 2.1](image-url) The three traditional poles of a strategic plan

Source: Adapted from Aktouf, 1996
an organization’s goals. Wheelen and Hunger (1995, p. 3) define strategic management as ‘that set of managerial decisions and actions that determines the long-run performance of a corporation’. Aktouf (1996) takes a similar view when he sees strategy as the maintenance of a ‘vision of the future’ that is constantly updated by data on both the internal and the external environment. Other definitions emphasize the achievement of performance goals: ‘A strategy is a specific pattern of decisions and actions that managers take to achieve an organization’s goals... For most if not all organizations, an overriding goal is to achieve superior performance... [Therefore] a strategy can often be defined more precisely as the specific pattern of decisions and actions that managers take to achieve superior organizational performance’ (Hill and Jones, 1998, pp. 3–4). Strategic management is considered a continuous activity, undertaken by the upper echelon of the organization, that requires constant adjustment of three major interdependent poles: the values of senior management, the environment, and the resources available (see Figure 2.1). Strategic management emphasizes the necessity to monitor and evaluate environmental opportunities and threats in the light of an organization’s strengths and weaknesses. Hence, any changes in the environment and the internal and external resources must be monitored closely so that the goals pursued can, if necessary, be adjusted. The goals should be flexible and open to amendment, subject to the demands and constraints of the environment and what takes place in the status of the resources.

**Model of strategic management**

We are the blind people and strategy formation is our elephant. Since no one has had the vision to see the entire beast, everyone has grabbed hold of some part or other and ‘railed on in utter ignorance’ about the rest (Mintzberg et al., 1998).

**HRM in practice 2.1**

**Japanese forced into HR strategy rethink**

Japanese companies based in the UK are reforming local workplace practices to stay ahead in the global economy

By Jennie Walsh People Management

Japanese employment methods may have revolutionised organisations in the 1970s and 80s, but the demands of today’s global markets are forcing a rethink, according to a new report by Arthur Andersen.

The report, which focuses on the personnel practices of Japanese companies based in the UK, reveals that many are grappling with the conflict between corporate values and culture, and the need to develop an employment model for the future. Operation efficiency – Japan’s raison d’être – achieved by pioneering practices such as total quality management and continuous improvement, has provided significant competitive advantages in the past, but may no longer be enough to beat off competition, according to the report.

Japanese firms are now hav-
In the descriptive and prescriptive management texts, strategic management appears as a cycle in which several events follow and feed upon one another. The strategic management process is typically broken down into five events or steps:

1. organization’s direction
2. environmental analysis
3. strategy formulation
4. strategy implementation
5. strategy evaluation.

Figure 2.2 illustrates how the five events or steps follow and interact. At the corporate level, the strategic management process includes activities that range from appraising the organization’s current mission and goals to strategic evaluation.

There is still a tendency for head offices in Japan to dictate or significantly influence the level of pay and benefits for UK employees.

Nikko Securities, the Japanese securities house, recently announced that London is taking over from Tokyo as the headquarters of its international operations. It has also installed Michel de Carvalho as head of international operations – the most senior position a European executive has ever achieved in a Japanese financial institution.

‘Nikko is very much a Japanese company,’ a spokesman said. ‘But to provide the best level of service to our European clients we have to recognise that language and cultural differences exist, and so we have joint Euro-Japanese personnel at senior levels.’

Mark Hutchings, personnel manager at Sanyo Electric, pointed to Nissan’s early approach to employing local nationals as key to its success. ‘Nissan gave local nationals a chance to manage immediately. The problems experienced by other Japanese companies, including Sanyo, were largely because we didn’t do that. Success does seem to be measurable by the extent to which local nationals are involved in management.’

Almost half of those surveyed did not have a defined grading structure, and the majority of these did not have an HR department. There is still a tendency for head offices in Japan to dictate or significantly influence the level of pay and benefits for UK employees.

Many companies are unwilling to replace existing job titles because this might ‘upset traditional structures and hierarchies’, although there is a strong consensus about the need to remove ‘glass ceilings’ for local staff and an acute awareness of equal opportunities issues.

‘There is a tradition of lifetime employment, where employees work in all areas and get to know about every aspect of the business,’ said Robert Hodkinson, author of the report. ‘But that can hinder creativity and there is now a recognition of the need to change. On the whole, there has been a tendency to imitate rather than innovate.’

In the descriptive and prescriptive management texts, strategic management appears as a cycle in which several events follow and feed upon one another. The strategic management process is typically broken down into five events or steps:

1. organization’s direction
2. environmental analysis
3. strategy formulation
4. strategy implementation
5. strategy evaluation.
The first step in the strategic management model begins with senior managers evaluating their position in relation to the organization’s current **mission and goals**. The mission describes the organization’s values and aspirations. It is the organization’s raison d’être, and indicates the direction senior management is going. A goal is a desired future state that the organization attempts to realize (Daft, 1998, p. 46). **Environmental analysis** looks at the internal organizational strengths and weaknesses and the external environment for opportunities and threats. The factors that are most important to the organization’s future are referred to as strategic factors and are summarized with the acronym SWOT, meaning **Strengths, Weaknesses, Opportunities and Threats**. **Strategic formulation** involves senior managers evaluating the interaction of strategic factors and making strategic choices that guide the organization to meet its goal(s). Some strategies are formulated at the corporate, business, and specific functional level such as marketing and HRM. The use of the term ‘strategic choice’ raises the question of who makes decisions in work organizations and
why they are made (McLoughlin and Clark, 1988). The notion of strategic choice also
draws attention to strategic management as a ‘political process’ whereby strategic
choices on issues such as resources are taken by a ‘power-dominant’ group of senior
managers within the organization. Child (1972) affirms this interpretation of the
decision-making process when he writes:

\[\text{When incorporating strategic choice in a theory of organizations, one is recognizing}
\text{the operation of an essentially political process, in which constraints and opportunities}
\text{are functions of the power exercised by decision-makers in the light of ideological val-
ues (Child, 1972 and quoted in McLoughlin and Clark, 1988, p. 41).}\]

In a political model of strategic management, it is necessary to consider the distri-
bution of power within the organization. According to Purcell and Ahlstrand (1994),
we must consider ‘where power lies, how it comes to be there, and how the outcome
of competing power plays and coalitions within senior management are linked to
employee relations’ (p. 45). The strategic choice perspective on organizational deci-
sion making makes the discourse on strategy ‘more concrete’; it also provides impor-
tant insights into how the employment relationship is managed.

**Strategy implementation** is an area of activity that focuses on the techniques used
by managers to implement their strategies. In particular, it refers to activities which
deal with leadership style that is compatible to the strategies, the structure of the
organization, the information and control systems, and the management of human
resources. Leading management consultants and academics (see Champy, 1996; Kot-
ter, 1996) emphasize strongly that leadership is the most important and difficult part
of the strategic implementation process. **Strategy evaluation** is an activity in the
strategic management process that determines to what extent actual change and per-
formance matches desired change and performance. The strategic management model
depicts the five main activities undertaken by senior managers as a rational and linear
process. However, it is important to note that it is a normative model. That is, it shows
how strategic management should be done and hence influences managerial processes
and practices, rather than describes what is actually done by senior managers (Whee-
len and Hunger, 1995). As we have already noted, the notion that strategic decision
making is a political process implies a potential gap between the theoretical model
and reality.

**Hierarchy of strategy**

Another aspect of strategic management in the multidivisional business organiza-
tion concerns the organizational level to which strategic issues apply. Conventional
wisdom identifies different levels of strategy: (1) corporate, (2) business, and (3)
functional (see Figure 2.3). These three levels of strategy form a hierarchy of strategy
within a large corporation. In different companies the specific operation of the hier-
archy of strategy might vary between ‘top-down’ and ‘bottom-up’ strategic planning.
The top-down approach resembles a ‘cascade’, where the ‘downstream’ strategic
decisions are dependent on higher ‘upstream’ strategic decisions (Wheelen and Hunger,
1995).

**Corporate-level strategy** describes a corporation’s overall direction in terms of its
general philosophy towards growth and the management of its various business units.
Such strategies determine the type of businesses a corporation wants to be in and what business units should be acquired, modified or sold. This strategy addresses the question what business are we in? Devising a strategy for a multidivisional company involves at least four types of initiatives:

- Establishing investment priorities and steering corporate resources into the most attractive business units.
- Initiating actions to improve the combined performance of those business units that the corporation first got into.
- Finding ways to improve the synergy among related business units in order to increase performance.
- Decisions dealing with diversification.

**Business-level strategy** deals with decisions and actions pertaining to each business unit. The main objective of a business-level strategy is to make the unit more competitive in its marketplace. This level of strategy addresses the question how do we compete? Although business-level strategy is guided by ‘upstream’ corporate-level strategy, business unit management must craft a strategy that is appropriate for their own operating situation. In the 1970s, Michael Porter (1980) made a significant contribution to our understanding of business strategy by formulating a framework that describes three competitive strategies: low-cost leadership strategy, differentiation strategy, and focus strategy. The low-cost leadership strategy attempts to increase the organization’s market share by emphasizing low unit cost compared to competitors. In a differentiation competitive strategy, managers try to distinguish their services and products – such as brand image or quality – from others in the industry. With the focus competitive strategy, managers focus on a specific buyer group or regional market.

Miles and Snow (1984) also made an important contribution to the strategic management literature. These authors identified four modes of strategic orientations: defenders, prospectors, analysers, and reactors. **Defenders** are companies with a limited product line and the management focus on improving the efficiency of their existing operations. Commitment to this cost orientation makes senior managers unlikely to innovate in new areas. **Prospectors** are companies with fairly broad product lines that focus on product innovation and market opportunities. This sales orientation makes senior managers emphasize ‘creativity over efficiency’. **Analysers** are companies that operate in at least two different product market areas, one stable and one variable. In this situation senior managers emphasize efficiency in the stable areas and innovation in the variable areas. **Reactors** are companies that lack a consistent strategy-structure-culture relationship. Thus, in this reactive orientation, senior management’s responses to environmental changes and pressures tend to be piecemeal strategic adjustments. According to Miles and Snow, competing companies within a single industry can choose any one of these four modes or types of strategies and adopt a corresponding combination of structure, culture, and processes consistent with that strategy in response to the environment. These strategic choices help explain why companies facing similar environmental threats or opportunities behave differently and why they continue to do so over a long period of time (Wheelen and Hunger, 1995). In turn, the different competitive or business strategies influence the ‘downstream’ functional strategies.

**Functional-level strategy** pertains to the major functional operations within the business unit, including research and development, marketing, manufacturing,
finance, and human resources. Typically, this strategy level is primarily concerned with maximizing resource productivity and addresses the question how do we support the business-level competitive strategy? The three levels of strategy – corporate, business, and functional – form a hierarchy of strategy within a large multidivisional corporation. Strategic management literature emphasizes that the strategies at different levels must be fully integrated. The need for integration has been explained like this:

If a global company is to function successfully, strategies at different levels need to interrelate. The strategy at corporate level must build upon the strategies at the lower levels in the hierarchy. However, at the same time, all parts of the business have to work to accommodate the overriding corporate goals (F.A. Maljers, Chairman of the Board of Unilever, and quoted by Wheelen and Hunger, 1995, p. 20).

Figure 2.3  Hierarchy of strategic decision making
**Business-level strategy and HRM**

Strategic management texts emphasize that each level of strategy forms the strategic environment of the next level in the corporation. At the functional level, human resource management strategy is implemented to facilitate the business strategy goals. An HR strategy can be defined as ‘The pattern that emerges from a stream of important decisions about the management of human resources, especially those decisions that indicate management’s major goals and the means that are (or will be) used to pursue them’ (Dyer, 1984, p. 159). Dyer’s definition draws attention to the dynamic nature of strategy because strategy is conceived as a pattern in a stream of decision making (Boxall, 1992). HRM strategy is closely linked to business strategy. The nature of the links between HRM strategy and business strategy has received much attention in the literature. A range of business–HRM links have been identified and classified in terms of a proactive-reactive continuum (Kydd and Oppenheim, 1990), and in terms of environment-human resource strategy-business strategy linkages (Bamberger and Phillips, 1991). In the ‘proactive’ orientation, the HRM professional has a seat at the strategic table and he or she is actively engaged in strategy formulation. In Figure 2.3, this type of proactive model is depicted by the two-way arrows on the right-hand side showing both downward and upward influence on strategy. At the other end of the continuum is the ‘reactive’ orientation, which sees the HRM function as fully subservient to corporate and business-level strategy, and corporate and business-level strategies ultimately determining HRM policies and practices. Once the business strategy is determined, without the involvement of the HRM professional, HRM policies and practices are implemented to support the chosen competitive strategy. This type of reactive orientation would be depicted in Figure 2.2 by a one-way downwards arrow from business to functional-level strategy. In this sense the practice of strategic HRM is concerned with the challenge of matching the philosophy, policies, programs, practices and process, the ‘five Ps’, in a way which will stimulate and reinforce different employee role behaviours appropriate for each competitive strategy (Schuler, 1989).

The importance of the environment as a determinant of HRM policies and practices has been incorporated into some models. Extending strategic management concepts, Bamberger and Phillips’ (1991) model depicts links between three poles: the environment, human resource strategy and the business strategy (see Figure 2.4). In

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**Figure 2.4** Environment as a mediating variable for HRM strategies  
Source: Bamberger and Phillips, 1991
the hierarchy of the strategic decision-making model, the HRM strategy is influenced by contextual variables such as markets, technology, national government policies, EU policies and trade unions. Purcell and Ahlstrand (1994) argue that those models that incorporate contextual influences as a mediating variable of HRM policies and practices tend to lack 'precision and detail' of the precise nature of the environment linkages and 'much of the work on the linkages has been developed at an abstract and highly generalized level' (p. 36).

In the late 1980s, John Purcell made a significant contribution to research on business HRM strategy. Drawing on the literature on 'strategic choice' in industrial relations (for example Thurley and Wood, 1983; Kochan et al., 1986) and using the notion of a hierarchy of strategy, Purcell (1989) identifies what he labels ‘upstream’ and ‘downstream’ types of strategic decisions. ‘Upstream’ or ‘first-order’, strategic decisions are concerned with the long-term direction of the corporation. If a first-order decision is made to take over another enterprise, for example, a French company acquiring a water company in southern England, a second set of considerations apply concerning the extent to which the new operation is to be integrated with or separate from existing operations. These are classified as ‘downstream’ or ‘second-order’, strategic decisions. Different HRM approaches are called ‘third-order’ strategic decisions because they establish the basic parameters of labour management in the workplace. In theory, wrote Purcell, ‘strategy in human resources management is determined in the context of first-order, long-run decisions on the direction and scope of the firm’s activities and purpose... and second-order decisions on the structure of the firm’ (1989, p. 71). In a major study of HRM in multidivisional companies Purcell and Ahlstrand (1994) argue that what actually determines human resource management policies and practices will be determined by decisions at all three levels and by the ability and leadership style of local managers to follow through goals in the context of specific environmental conditions. Case study analysis has highlighted the problematic nature of strategic choice model building. Colling (1995) emphasized that the conception of strategic choice exaggerates the ability of organizations to make decisions independent of environmental contexts in which they do business. Further, the notion that a high-wage and empowering HRM strategy follows from an ‘added-value’ competitive strategy is more problematic in practice: ‘added-value strategies do not preclude or prevent the use of managerial control over employees... [and] few companies are able to operationalise added-value programmes without cost-constraints and even fewer can do so for very long’ (1995, p. 29). Much of the strategic human resource management (SHRM) literature has focused on two aspects of the strategy debate, the integration or ‘fit’ of human resource management strategy with business strategy and the ‘resource-based’ model of strategic HRM. The next section takes a critical look at these influential SHRM models.

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**Strategic human resource management**

Although the roots of the strategic literature on HRM are in ‘manpower’ (sic) planning, it is the normative HRM models developed in the 1980s that made the strategic concept central to research productivity in this area (Cappelli and Singh, 1992). In the 1980s, scholars attached the prefix ‘strategy’ to the term human resource management and the notion of ‘strategic integration’ became prominent in the HRM literature. Interest among practitioners in linking the strategy concept to HRM can be
explained by the pressure to enhance the status of HRM professionals within companies (Purcell and Ahlstrand, 1994) at a time when 're-engineering' is questioning the need for HRM specialists in a 'flatter' organizational structure.

One key feature of Beer et al.'s (1984) model of HRM is 'strategic integration'; in particular the need to establish a close two-way relationship or 'fit' between the external business strategy and the elements of the internal HR strategy: 'An organization's HRM policies and practices must fit with its strategy in its competitive environment and with the immediate business conditions that it faces' emphasize Beer et al. (1984, p. 25). Drawing upon Beer et al.'s analytical framework, Guest posits that typically strategic planning emphasizes the quantitative aspects of finance, marketing and production and gives less attention to the qualitative dimensions of the post-industrial organization, such as values, culture and power. Consequently, the implementations of strategic business plans become more problematic if the human resources component is not an integral part of the strategic planning process:

Because they are the most variable, and the least easy to understand and control of all management resources, effective utilization of human resources is likely to give organizations a significant competitive advantage. The human resource dimension must therefore be fully integrated into the strategic planning process (Guest, 1987, p. 512).

The concept of integration has three other aspects: the integration or 'cohesion' of HR policies and practices in order to complement each other and to help achieve strategic goals, the internalization of the importance of HR on the part of line managers and, third, the integration of all workers into the business to foster commitment or an 'identity of interest' with their organization. The basic proposition developed here is that if these forms of integration are implemented, workers will be more cooperative, flexible and willing to accept change, and, therefore, the organization's strategic plans are likely to be more successfully implemented. In this section we examine the nature of the relationship of one element of integration, the strategic planning-HRM link. This approach to strategic HRM is referred to as the 'matching' model. We also examine an alternative view of strategic HRM; the 'resource-based' model.

The matching strategic HRM model

The underlying premise of this influential model is that high-wage countries in the western hemisphere can only gain competitive advantage through adopting Michael Porter's (1980, 1985, 1990) generic 'low-cost' or 'differentiation' strategy. Further, each Porterian competitive strategy involves a unique set of responses from workers or 'needed role behaviours' and a particular HRM strategy that might generate and reinforce a unique pattern of behaviour (Schuler and Jackson, 1987; Cappelli and Singh, 1992). Thus, the practice of strategic HRM is concerned with the challenge of matching the philosophy, policies, programs, practices and process, the 'five Ps' (see Figure 2.3), in a way which will stimulate and reinforce different employee role behaviours appropriate for each competitive strategy (Schuler, 1989). Similarly, each type of Miles and Snow's (1984) competitive strategies - 'defender', 'prospector' and 'analyser' - will require that an organization's HRM polices and practices should be configured and managed in a way that is congruent with each particular strategy.

The publication of Fombrun et al.'s Strategic Human Resource Management (1984) generated early interest in the 'matching' model. Devanna et al.'s framework chapter
in this book argued that ‘HR systems and organizational structure should be managed in a way that is congruent with organizational strategy (p. 37). This is similar to Chandler’s (1962) distinction between strategy and structure and his often quoted maxim that structure follows strategy. In the Devanna et al. model, human resource management strategy and structure follow and feed upon one another and are influenced by environmental forces (Figure 2.5). This basic model constituted the ‘bare bones of a theory’ on SHRM (Boxall, 1992).

The notion of ‘fit’ between an external competitive strategy and the internal HRM strategy is a central tenet of the HRM model advanced by Beer et al. (see Figure 1.3). The authors emphasize the analysis of the linkages between the two strategies and how each strategy provides goals and constraints for the other. There must be a ‘fit between competitive strategy and internal HRM strategy and a fit among the elements of the HRM strategy’ (Beer et al., 1984, p. 13). Any inconsistency in internal HRM practices will likely lead to ‘role conflict and ambiguity that can interfere with individual performance and organizational effectiveness’ (Schuler, 1989, p. 164). There is some theorization of the link between product markets and organizational design and approaches to labour management. So, for example, a firm manufacturing large-batch products in a market where low cost is critical will, Beer et al. argue, need to develop a different approach to managing its workforce than a firm manufacturing small-batch, customized products where quality is a key success factor. HRM is seen to be ‘strategic by virtue of its alignment with business strategy and its internal consistency’

![Figure 2.5 Devanna et al.’s matching model of strategic HRM](Source: Devanna et al., 1984)
In the matching model, the relationship between business strategy and HRM strategy is said to be 'reactive' in the sense that HRM strategy is subservient to 'product market logic' and the corporate strategy. The latter is assumed to be the independent variable (Boxall, 1992; Purcell and Ahlstrand, 1994). As Miller (1987) emphasizes:

HRM cannot be conceptualized as a stand-alone corporate issue. Strategically speaking it must flow from and be dependent upon the organization’s (market oriented) corporate strategy (cited in Boxall, 1992, p. 66).

**Limitations with the matching model**

The matching model can be critiqued both on conceptual and empirical grounds. In the first area, the conceptual, the matching model is predicated upon the rational view of strategic decision making grounded in clearly definable predispositions and acts of planning, choice and action. That is, the third-order or ‘internal’ strategy – a carefully planned approach to how people at work are to be deployed, developed, motivated and controlled – is derived from first-order or ‘external’ strategy – a chosen approach of competing in the marketplace. In other words, it assumes that organizational controllers act rationally. But, as many critical organizational theorists attest, strategic decisions are not necessarily based on the output of rational calculation. The assumption that business-level strategy and HRM strategy has such a logical linear relationship is questionable given Whittington’s (1993) work on strategy. His two axes model has four perspectives on strategy – ‘classical’, ‘evolutionary’, ‘processual’, and ‘systemic’ – thereby complicating the notion of aligning business strategy and HRM strategy. What perspective on strategy is being adopted when writers make normative statements that HRM should ‘fit’ the business strategy? As Legge (1995) emphasizes, the notion of aligning business strategy and HRM strategy only applies to the ‘classical’ approach (the supreme goal is profitability and rational, top-down strategic planning is the means to achieve it) to strategy. Thus, the ‘act of consciously matching HRM policy to business strategy is only relevant if one adopts the rationalistic ‘classical’ perspective on strategy (p. 103). The ‘decision process’ model and the ‘political process’ model appear to provide a more fruitful approach into strategic decision making. Proponents of the two models argue that managerial rationality is limited by lack of information, time and ‘cognitive capacity’ and, adding to the management milieu, management is a highly competitive process, in which managers fiercely compete for resources, status and power. Rather than viewing strategic choices as the outcome of rational decision making, Johnson (1987) opines that:

Strategic decisions are characterized by the political hurly-burly of organizational life with a high incidence of bargaining, a trading off of costs and benefits of one interest group against another, all within a notable lack of clarity in terms of environmental influences and objectives (cited in Purcell, 1989, p. 72).

A second problem is with the prescriptive validity of the model. Some HRM theorists have questioned whether the fit metaphor is necessarily a desirable goal to achieve. In periods of market turbulence and financial stringency there is a tendency for corporate management to improve profitability by downsizing, decentralizing decision making and applying more demanding performance outcomes at the unit
level. As Purcell (1989, 1995) argues, this, in turn, encourages similar trends in HRM and industrial relations strategies. A multidivisional company pursuing a strategy of acquisition, asset stripping, and downsizing might ‘logically’ adopt a set of HRM strategy that includes compulsory lay-off and a compensation system based on short-term performance results. In such a case, the business strategy and HRM strategy might ‘fit’, but as Legge points out, these HRM policies ‘although consistent with such a business strategy, are unlikely to generate employee commitment’ (1995, p. 126). In other words, achieving the goal of ‘close fit’ of business and HRM strategy can contradict the core ‘soft’ HRM goals of commitment, flexibility and quality. Further, senior managers are pragmatic and the potential for contradictions abound in the work arena. Work organizations may adopt a ‘soft’ version of HRM for white-collar managerial staff, which is consistent with its business strategy, while simultaneously pursuing a ‘hard’ version of HRM for blue-collar workers, which might undermine the commitment of the latter.

To further pursue the question whether a matching of business and HRM strategies is necessarily desirable, Boxall (1992, 1996) argues that ‘excessive fit’ can be disadvantageous to gaining competitive advantage. It can make a company inflexible and incapable of adapting quickly to the external environment: ‘[managers] need to respond appropriately to a range of competitive conditions’. He goes on to state that, ‘The fit metaphor is an unfortunate one in an age when flexibility and the need for rapid learning in organizations have become perceived as such major virtues’ (1992, pp. 68–9). Finally, a close alignment of HRM policies and practices with business strategy might be ‘impractical’ owing to the personality traits of managers; it ‘assumes a rigidity of personality and a stereotyping of managers that is untenable, as well as an unrealistic precision in the selection process’ (Legge, 1995, p. 127).

A third problem centres on underlying structural variables in profit-driven economies which seriously undermine the notion of strategic integration. Purcell’s (1995) work, for example, demonstrates how the imperatives of the marketplace and ‘rational’ managerial decisions limit the adoption of the matching paradigm. He argues that when a financial-control mode of management and short-term investment criterion dominates, it tends to drive out long-term HR investment at the workplace and ‘destroy’ the basis of HRM as part of corporate strategy. He also notes that multidivisional companies are not monolithic; a range of possible patterns of corporate strategy is possible. It is, however, worth noting that the companies adopting a financial-control model, ‘substantially out-perform the industry average’ and, consequently, are viewed favourably by the capital markets. As the 1990s continue to be marked by short-term financial expediencies in the Anglo-North American capital markets, this trend makes the adoption of non-economic and intangible values characteristic of the ‘soft’ HRM paradigm as part of a corporate strategy improbable. The implications of Purcell’s (1989) incisive analysis of the integration model is that, however inspired managers might be by the progressive HRM paradigm, there are contradictory ‘structural tendencies’ at work that will constrain management implementing this model. In addition, the matching model is essentially ‘unitary’ and it tends to assume that workers are unproblematic and will comply with management’s perception of the ‘needed role behaviours’. Advocates of tight fit between business and HRM strategies tend to ignore the realities of the workplace and the possibility that workers and their unions might influence strategic planning (Boxall, 1992, 1996).

In the second area for debate, the empirical, there are two related hypotheses: the first asks whether HRM strategies are in fact related to business strategy; the second
question asks whether organizations that manage to achieve a ‘tight fit’ actually experience superior performance. The second and more challenging question, we address later in this chapter. As far as the first empirical question, it is evident that both survey-based research and case studies have generated only limited empirical support for the matching paradigm (Boxall, 1992, 1996; Legge, 1995). Jackson et al.’s (1989) survey study of 267 firms found some support for the proposition that firms pursuing an innovative strategy seek to develop HRM practices for blue-collar workers that are ‘broadly consistent with that thrust’, but that HRM practices varied with technology, industrial sector, organizational size and structure, and workplace unionism (cited in Boxall, 1992, p. 67). The study does not disprove the matching model of strategic HRM, but ‘it provides few answers’ (Jackson et al., 1989, p. 782). Marginson et al. (1993), in a survey study of large UK companies failed to find an explicit link between HRM strategy and business strategy. Similarly, Purcell and Ahlstrand’s (1994) study of multidivisional companies found that HRM issues are ‘rarely taken into account’ in the formulation of corporate strategies. Downie and Coates’ (1994) survey study of Canadian firms reported that HRM is taking on somewhat ‘more strategic importance’, but provided little evidence to substantiate the notion of strategic integration. The study found that Canadian HR managers are ‘often outside the decision-making circle’. Peck’s (1994) survey study of the relationships between ‘strategy, HR policies and the employment relationship’ in 45 American firms concluded that the relationships between the three are ‘more complex than previously assumed’ (1994, p. 729). The case study of US steel mills by Arthur (1992) does provide some evidence of a fit between a low-cost business strategy and cost-reducing HRM practices, but the associations are ‘far from perfect’ (Pfeffer, 1994, cited in Boxall, 1996, p. 63). As a review of the literature makes clear, the fit metaphor has proven to be both conceptually and empirically elusive. The upshot is that aligning business and HRM strategies is a complex process and we lack detailed data provided by longitudinal case studies to demonstrate the relationship between business strategy and HRM strategy. We turn now to the second approach to strategic HRM, the ‘resource-based’ model.

The resource-based model

The resource-based model of SHRM draws attention to the strategic value of the workforce and to the issues of workplace learning. Thus it appears to embrace a ‘soft’ view of human resource management. The genesis of the resource-based model can be traced back to Selznick (1957) who suggested that work organizations each possess ‘distinctive competence’ that enables them to outperform their competitors, and to Penrose (1959) who conceptualized the firm as a ‘collection of productive resources’. She distinguished between ‘physical’ and ‘human resources’, and drew attention to issues of learning including knowledge and experience of the management team. Moreover, Penrose emphasized, what many organizational theorists take for granted, that organizations are ‘heterogeneous’ (Penrose, 1959, cited in Boxall, 1996, pp. 64–5). More recently, Barney (1991) has posited that ‘sustained competitive advantage’ (our emphasis) is not achieved through an analysis of its external market position but through a careful analysis of the firm’s skills and capabilities; characteristics which competitors find themselves unable to imitate. Putting it in terms of simple SWOT analysis, the matching model emphasized the strategic significance of external ‘Opportunities’ and ‘Threats’, the resource-based perspective emphasizes the strategic
importance of internal ‘Strengths’ and ‘Weaknesses’. This model, summarized in Figure 2.6, suggests that work organizations achieve sustainable competitive advantages by ‘implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses’ (Barney, 1991, p. 99).

Barney argues that four characteristics of resources and capabilities are important in sustaining competitive advantage: value, rarity, inimitability and non-substitutability. From this perspective, the collective learning in the workplace by managers and non-managers, especially how to coordinate workers’ diverse knowledge and skills and integrate diverse information technology, is a strategic asset that rivals find difficult to replicate. Figure 2.7 summarizes the relationship between resource heterogeneity and immobility, value, rareness, imitability, and substitutability and sustained competitive advantage. Amit and Shoemaker (1993) make a similar point to Barney when they emphasize the strategic importance for managers to identify, ex ante, and marshal ‘a set of complementary and specialized resources and capabilities which are scarce, durable, not easily traded, and difficult to imitate’ to enable the company to earn ‘economic rent’ (profits). Thus, according to the resource-based SHRM model, ‘the value of the firm’s strategic assets extends beyond their contribution to the production process’ (p. 37).

It depends on a wide range of characteristics, including inimitability, limited substitutability, overlap with strategic industry factors and scarcity, and varies with changes in the relevant set of strategic industry factors. Amit and Shoemaker’s multidimensional framework is useful because it recognizes the dynamic nature of strategy and takes into account the existence of power and conflict in shaping (and potentially subverting) strategy when they state that:

Owing to uncertainty, complexity, and conflict (both in and outside the firm), different firms will employ different strategic assets, without any one set being provably optimal or easily imitated. At best, managers can devise heuristic solutions that navigate
between the numerous cognitive and affective biases characteristic of humans and organizations (1993, p. 44).

Cappelli and Singh (1992) envision a coming ‘marriage’ between business strategy and HRM strategy based on the mutual recognition of the sustainable competitive advantage that skilled employees potentially create for the post-industrial organization. As Cappelli and Singh go on to discuss, this means that ‘competitive advantage arises from firm-specific, valuable resources that are difficult to imitate’ (p. 186). The strategic significance of HRM, Cappelli and Singh argue, is when HRM specialists demonstrate how, by developing valuable, non-transferable skills, HR impacts positively on long-term organizational performance. Similarly, Kamoche (1996) argues that when the two dimensions of ‘human resource competencies’ and the ‘firm’s core competencies’ are aligned the ‘full value of this synthesis is realizable’ (p. 226). John Purcell (1995) builds on Cappelli and Singh’s work to offer a more optimistic scenario than that offered in his 1979 study. He argues that the organization’s human resource assets can make the potential contribution of strategic HRM ‘immense’. The role for internal HRM strategy is to avoid becoming enmeshed in short-term, decentralized financial-control models characteristic of most American, Canadian and UK multi-divisional companies. Instead, the strategic role for HRM is to develop ‘horizontal’ long-term strategies which place a ‘premium’ on the human resources and which emphasize intangible, learning, and skill transfer and the reduction in transaction cost (Purcell, 1995, p. 84). The message for corporate HRM executives, argues Purcell, is clear; they have to demonstrate that the progressive HRM paradigm is invariably associated with improved organizational economic performance: ‘The challenge for human resource management is to show a link between policy, practice and organizational outcomes that is meaningful to the corporate board’ (p. 84). As we discuss later in this chapter, there now appears to be sufficient survey and case study evidence available to demonstrate a positive relationship between HRM and performance (Ichniowski et al., 1996).
Limitations with the resource-based model

How should we evaluate the resource-based model? As with the contingent matching approach, the resource-based approach to strategic HRM can be critiqued on both conceptual and empirical grounds. One problem is that the term itself, ‘resource-based’ appears to mean different things to different authors. Some competing terms include ‘distinctive competence’ (Selznick, 1957), ‘dynamic capabilities’ (Teece et al., 1990), ‘core competencies’ (Prahalad and Hamel, 1990), ‘human resource competencies’ and the ‘firm’s core competencies’ (Kamoche, 1996) and so on. The definitions range from narrow specific interpretations to very broad descriptions and are ‘sometimes tautological; resources are defined as firm strengths, and firm strengths are then defined as strategic resources; capability is defined in terms of competence, and competence is then defined in terms of capability’ (Nanda, 1996, p. 100).

The prescriptive message of the resource-based approach is based upon the familiar assumptions in McGregor’s (1960) ‘Theory Y’ – that workers have talents which are rarely fully utilized in the workplace – and could therefore be seen as no more than ‘good intentions and whistling in the dark’ (Guest, 1990, p. 392). The prescriptive validity of the resource-based approach has been questioned by some theorists. For some, this perspective on strategic HRM makes the mistake it accuses the matching model of making; ‘it seems to be ascribing preeminence to the inside-out perspective of strategy’ (Nanda, 1996, p. 103). The practitioner literature, however, warns against ignoring the strategic relevance of both external and internal factors and calls for a ‘dual’ focus on market analysis and organizational capabilities.

Another problem with the resource-based SHRM model stems from its implicit acceptance of a unitary perspective of the post-industrial workplace in which goals are shared and levels of trust are high. As is the case with the matching model, advocates of the resource-based SHRM perspective omit the dynamics of workplace trade unionism in the strategic equation. However, writers typically recognize the importance of workers’ contribution to the labour process, knowledge and skills, synergy, proactive leadership, encouraging innovation and stimulating learning processes and, in contrast to the matching approach, it is a dynamic model of strategy. A comprehensive theory of strategic HRM would be ‘pluralist’ and incorporate worker interests within the nexus of the firm. As Boxall (1996) correctly acknowledges ‘we must incorporate an adequate theory of employment relations into the theory of strategic HRM’ (1996, p. 68).

Finally, what empirical support is there for the resource-based SHRM model? To date, the literature reports that empirical studies have lagged behind this model of strategic HRM. In relation to the question of empirical support Nanda (1996) makes a pertinent observation: ‘While the analysis has been sophisticated at macrotheoretic level, it stands relatively unsupported by microtheoretic foundations on the one side and empirical verifications on the other’ (Nanda, 1996, p. 97). The premise underlying the resource-based approach to strategic HRM is that sustainable competitive advantage or above average performance is derived from workplace learning: ‘it is a firm’s ability to learn faster and apply its learning more effectively than its rivals, that gives it competitive advantage’ (Hamel and Prahalad, 1993, cited by Boxall, 1996, p. 65). This makes training and employee development a vital if not pivotal component of strategic HRM. In Britain and Canada however, the general record of workplace training is ‘dismal’. Ashton and Felstead (1995) assert that there has been no systematic evidence of a transformation of training activity in British companies. In
addition, Anglo–North American managements have placed more emphasis on non-
standard employment and reducing labour costs and, explicitly or implicitly, have de-
emphasized employment security, which would suggest a limited acceptance of the
resource-based approach as it applies to HRM (Boxall, 1996). In Canada, Betcherman
et al.’s (1994) survey study reported that ‘the large majority of firms do not take a sys-
tematic, forward-looking approach to training; roughly 20 per cent appear to have a
training budget and about 15 per cent have a formal training plan’ (1994, p. 36).
When faced with the various exigencies of global price competition, the majority of
Anglo–North American companies have opted for a Porterian low-cost strategy and a
market-driven HRM strategy to minimize investment in human resources. The conse-
quences of a low-cost strategy in a free-market global economy leads to second-round
effects on the workforce. Line managers, clerical and manual workers realize that their
jobs are more insecure, and that their employers are compelled to be increasingly
aggressive on employment relationship matters; that in turn affects workers’ commit-
ment to the organization and the value they place in upgrading their skills. Thus, a
market-driven ‘hard’ HRM strategy can perpetuate a low-skill, low-wage economy.
Despite consultants and senior business executives’ protestations it would appear that
much of the ‘soft’ HRM practices have been put back on the shelf.

**Dimensions of strategic HRM**

In addition to focusing on the validity of the matching and the resource-based SHRM
models that have just been discussed, researchers have identified a number of impor-
tant themes associated with the notion of strategic HRM that are briefly discussed
here and, with the exception of leadership, more extensively in later chapters. These
are: re-engineering organizations and work (see also Chapter 4); leadership; workplace
learning (see also Chapter 10); and trade unions (see also Chapter 12).

**Re-engineering and strategic HRM**

Both ‘hard’ and ‘soft’ normative models of HRM emphasize the importance of orga-
nizational and job redesign. As we previously mentioned, much of the literature on
the ‘soft’ HRM model is concerned with job design that would encourage the vertical
and horizontal compression of tasks, worker autonomy and self-control or accounta-
bility. A new buzz word for the redesign of work organizations is ‘business process re-
engineering’ (BPR).

Under capitalism the transformation of work organization has a long history (see
for example Littler, 1982), so Hammer and Champy (1993) did not invent the process,
but they certainly gave it a new name ‘re-engineering’ and popularized the concept
with over 2 million copies of their book sold worldwide since it was published in
1993. Hammer and Champy define BPR as:

> [T]he fundamental rethinking and radical redesign of business processes to achieve dra-
matic improvements in critical, contemporary measures of performance, such as cost,
quality, service, and speed (1993, p. 32).

Hammer and Champy argue for a new approach to organizational design, work
processes, and management. First, the hierarchy of the corporation is ‘flattened’ as
many middle-management positions give way to 'enabling' information technology and self-managed work teams. Second, work is redesigned into self-managed teams and managerial accountability is shifted to the 'front line': 'Whatever supervisory capacity those middle managers might have had now passes to the people who work in teams or have become increasingly more self-managed' (Champy, 1996, p. xv).

Third, information technology is a 'critical enabler' that allows organizations to do work in 'radically' different ways. Fourth, senior management make an 'unwavering' commitment to radical change, including cultural change, set ambitious goals, and initiate the re-engineering process. The elimination of many middle-management positions, the vertical and horizontal compression of job assignments, and self-managed work teams draws attention to 'strong' leadership and corporate culture, and the critical role of HRM. In essence, BPR puts the HRM techniques that seek to make workers' behaviour and performance more congruent with the organization's culture and goals. Finally, re-engineering as a social construct, displays the inherent power of corporate leaders to shape and define reality, not unlike what Machiavelli ([1513] 1961) wrote in The Prince: 'it is far better to be feared than loved... fear is strengthened by a dread of punishment which is always effective' (p. 52-3). Champy's notes that: 'capitalism is a system that quite literally works on fear... the only way to persuade many folks to undertake a painful therapy like reengineering... is to persuade them that the alternative will be even more painful' (1996, p. 49). Champy's candid observation reveals the 'darker side' to re-engineering and further tensions between 'hard' and 'soft' HRM models. The 'hard' version of HRM might be a necessary prerequisite before the 'soft' version of HRM can work in the re-engineered workplace.

Leadership and strategic HRM

The concept of managerial leadership permeates and structures the theory and practice of work organizations and hence the way we understand SHRM. In the management texts, leadership has been defined in terms of traits, behaviour, contingency, power, and occupation of an administrative position. Most definitions reflect the assumption that leadership involves a process whereby an individual exerts influence upon others in an organizational context. Leadership is by nature dialectical: it is socially constructed through the interaction of both leaders and followers (Smircich and Morgan, 1982). After a comprehensive review of the leadership literature, Yukl (1998) affirms that any definition of leadership is 'arbitrary and very subjective' and goes on to define leadership as:

[T]he process wherein an individual member of a group or organization influences the interpretation of events, the choice of objectives and strategies, the organization of work activities, the motivation of people to achieve the objectives, the maintenance of cooperative relationships, the development of skills and confidence by members, and the enlistment of support and cooperation from people outside the group or organization (1998, p. 5).

Yukl's definition, while emphasizing many aspects of 'people skills', tends to be focused upon the dynamics and surface features of leadership as a social influence process. More critical accounts of leadership tend to focus upon the hierarchical forms to which it gives rise, power relationships, and the gender dominance. As such, it is argued that leadership is not simply a process of behaving or a process of manip-
ulating rewards, it is a process of ‘power-based reality construction’ (Smircich and Morgan, 1982). Most of the leadership research and literature tends to be androcentric in nature and rarely acknowledges the limited representation of ethnic groups and women in senior leadership positions (Townley, 1994). Within the literature, however, there is a continuing debate over the alleged differences between a manager and a leader. For example, Bennis and Nanus (1985, p. 21) proposed that ‘managers are people who do things right and leaders are the people who do the right thing’. Kotter (1990, 1996) proposed that managers develop plans whereas leaders create a vision and a strategy for achieving the vision. Further, Kotter proposed that managers and leaders differ in their methods for promoting their agenda. Managers organize and engage in a process of controlling and problem-solving, while leaders engage in a process of alignment and seek to motivate and inspire. Clearly, an individual can be a manager without leading, and an individual can be a leader without being a manager (for example an informal group leader or elected trade union leader). Kotter argues that a balance of management and leadership is necessary for a work organization to operate effectively.

The concept of leadership is a central building block of the ‘soft’ HRM model’s concern with developing a ‘strong’ organizational culture and building a high level of worker commitment and cooperation. For Guest (1987), the current interest in alternative leadership paradigms in the 1980s, variously labelled ‘transformational leadership’ (Tichy and Devanna, 1986), ‘charismatic leadership’ (Conger and Kanungo, 1988), ‘self-leadership’ (Manz and Sims, 1989), or ‘principle-centred leadership’ (Covey, 1989, 1990) can be explained by understanding the prerequisites of the resource-based SHRM model. Managers are looking for a style of leadership that will develop the firm’s human endowment and, moreover, generate employee commitment, flexibility, innovation and change. Of the many management gurus, Peter Senge (1990, p. 340) makes the most explicit link between strategic HRM, workplace learning, and leadership when he writes that ‘leaders are designers, stewards, and teachers’ and that a learning organization will remain only a ‘good idea, an intriguing but distant vision’ until the leadership skills required are more readily available. Thus, it would seem that a key constraint on the development of a resource-based SHRM model and a ‘learning organization’ is leadership competencies. Barney (1991) emphasizes that the resource-based SHRM requires leaders that develop the organization’s ‘rare and non-substitutional’ human assets. Unlike technology assets, organizations cannot readily purchase human sustainable competitive advantages on the open markets and therefore ‘managers are important in this model, for it is managers that are able to understand and describe the economic performance potential of a firm’s endowments. Without such managerial analyses, sustained competitive advantage is not likely’ (p. 117). The integrative theoretical of leadership and strategy developed by Nahavandi and Malekzadeh (1993) depicts the organizational leader to be ‘key’ to both the formulation and implementation of competitive strategy. If we accept Nahavandi and Malekzadeh’s hypotheses, it would seem plausible that leaders who are ‘open and participative’ and ‘challenge-seekers’ are more likely adopt a ‘soft’ SHRM model to match the high risk ‘prospector’ and ‘differentiation’ competitive strategies, than leaders who desire ‘control’ and are ‘challenge-averse’ and focus on ‘defender’ and ‘cost’ leadership strategies. In the popular management literature, Hammer and Champy (1993), in Reengineering the Corporation, make a similar point when they argued that leadership is critical in the re-engineering processes: ‘most re-engineering failures stem from breakdowns in leadership’ (p. 107). Kotter (1996) also
argues that the ‘engine’ that drives change is ‘leadership, leadership, and still more leadership’ (p. 32).

In essence, the ‘transformational’ leader extols to employees the need for working beyond contract for the ‘common’ good. This leadership style emphasizes the importance of vision building and the ability to communicate this vision and, simultaneously, enthuse subordinates to make their vision a reality: ‘to innovate, to change and indeed to conquer new frontiers in the marketplace or on the shop floor’ (Guest, 1990, p. 393). In contemporary parlance, the transformational leader is empowering workers. However, to go beyond the rhetoric, the transformational model shifts the focus away from the hierarchical nature of work organizations, control processes, inherent conflicts of interest between leaders and the led, and innate power relationships, towards the individualization of the employment relationship, and the development of individual leadership qualities or traits that might lead to gender and racial stereotyping of leadership traits (see Alvesson and Billing, 1992; Wajcman, 1996). Even though the new leadership paradigms emphasize ‘shared leadership’ and empowerment among ‘core’ workers, they represent a ‘unitary’ frame of reference on employment relations and are squarely aimed at ‘bottom-line’ results (Legge, 1995). The general assumption is that ‘enlightened’ leadership will result in higher productivity and effectiveness. Later in this chapter we will elaborate and expand on the HRM–leadership–performance linkages.

Workplace learning and strategic HRM

Within most formulations of strategic HRM, employee development has come to represent a key ‘lever’ that can help management achieve the substantive HRM goals of commitment, flexibility and quality. Beer et al. (1984, p. 85) muse that ‘employee development is a key strategy for organizational survival and growth’. Others have argued that investment in employee development has become a ‘litmus test’ of whether or not employers have adopted the HRM model (Keep, 1989). In recent years, many academics and corporate leaders have been attracted by the concept of the ‘learning organization’ (Cohen and Sproull, 1996), ‘management learning’ (Burgoyne and Reynolds, 1997) or the more encompassing term, ‘workplace learning’ (Spikes, 1995). Workplace learning is an interdisciplinary body of knowledge and theoretical inquiry that draws upon adult learning and management theory. In practice, it is that part of the management process that attempts to facilitate work-related continuous learning at the individual, group and organizational level. For workers and managers alike, the assumptions about workplace learning capture the essence of the American Dream, the opportunity for progress or growth at work based on individual achievement (Guest, 1990). Workplace learning occupies centre stage in the ‘soft’ resource-based SHRM model. Individual, team, and organizational learning can strengthen an organization’s ‘core competencies’ and thus act as the engine for sustainable competitive advantage.

From a managerial perspective, it is suggested that an organization’s investment in workplace learning acts as a powerful signal of its intentions to develop its ‘human assets’; this can help develop commitment to the organization rather than compliance. The pursuit of worker flexibility through workplace learning is discussed extensively by observers as a lever for sustainable competitive advantage: the ability to learn ‘faster’ than competitors (Dixon, 1992). Most advocates of Japanese or ‘lean’ production systems emphasize the importance of investing in human capital and the
processes of workplace learning (for example Schonberger, 1982; Womack et al., 1990). And Kochan and Dyer advise those firms adopting a 'mutual commitment' strategy to gain competitive advantage to make the necessary investment in their workforce and adopt the concept of lifelong learning (our emphasis, 1995, p. 336). The relationship between learning and worker commitment, flexibility, and quality have also been subject to much comment in the literature.

There is a growing body of work that has taken a more critical look at workplace learning. Some of these writers, for example, emphasize how 'cultural control' can be reinforced through workplace learning (Legge, 1995) and how the training of 'competencies' can render work more 'visible' in order to be more manageable (Townley, 1994). Coopey (1996) challenges the academic entrepreneurs such as Peter Senge, The Fifth Discipline (1990). Coopey argues that workplace learning theory assumes a unitarist perspective in which goals are shared and largely ignores conflict stemming from inherent tensions in the employment relationship, that power is omnipresent in work organizations, and that political activity by organizational members is likely to impede learning. He goes on to argue that the likely effect of workplace learning is to strengthen the power of senior management, those at the 'apex of the organization'. At the level of rhetoric, underpinning notions of 'high quality', 'flexible specialization' and functional flexibility, is the assumption of a well-trained 'high quality workforce' (Legge, 1995). However, empirical data show that in most Anglo-North American companies there is a growing trend in 'non-standard' forms of employment (for example part time and contractors). If these data are correct and we accept the plausible insight that 'peripheral' workers tend to receive the lowest level of training (Ashton and Felstead, 1995), there would appear to be a gap between the theory and practice of strategic HRM models.

Trade unions and strategic HRM

In the literature the new HRM model is depicted as ‘unitary’; it assumes that management and workers share common goals, and differences are treated and resolved rationally. According to the theory, if all workers are fully integrated into the business they will identify with their company’s goals and management’s problems, so that what is good for the company and management is perceived by workers as also being good for them. Critical to achieving this goal is the notion of worker ‘commitment’ to the organization. This HRM goal has led writers from both ends of the political spectrum to argue that there is a contradiction between the normative HRM model and trade unions. In the prescriptive management literature, the argument is that the collectivist culture, with its ‘them and us’ attitude, sits uncomfortably with the HRM goal of high employee commitment and the individualization of the employment relationship including individual contracts, communications, appraisal and rewards.

Much of the critical literature also presents the new HRM model as inconsistent with traditional industrial relations and collective bargaining, albeit for very different reasons. Critics argue that HRM policies and practices are designed to provide workers with a false sense of job security and obscure underlying sources of conflict inherent in employment relations. According to Godard, historically a major reason for managers adopting ‘progressive’ [HRM] practices has been to avoid or weaken unions. However, he does concede that ‘it would also be a mistake to view progressive practices as motivated solely or even primarily by this objective’ (1994, p. 155).
Yet other industrial relations scholars, taking a more traditional ‘orthodox pluralist’ perspective, have argued that independent trade unions and variants of the HRM model cannot only coexist but are even necessary to its successful implementation and development. They argue that trade unions should become proactive or change ‘champions’ actively promoting the more positive elements of the ‘soft’ HRM model. Such a union strategy would create a ‘partnership’ between management and organized labour which would result in a ‘high-performance’ workplace with mutual gains for both the organization and workers (Betcherman et al., 1994; Guest, 1995; Verma, 1995). What is clearly apparent from a review of the literature is that this aspect of the HRM discourse has been strongly influenced by political–legal developments and the decline in trade union membership and power in the US and UK over the last two decades. Therefore when you read Chapter 12 and the literature, it is important to remember that the debate is set in the contextual developments in the USA and Britain.

**HRM and organizational performance**

Although most HRM models provide no clear focus for any test of the HRM–performance link, the models tend to assume that an alignment between business strategy and HRM strategy will improve organizational performance and competitiveness. The resource-based SHRM model assumes a simple causal chain of ‘soft’ HRM policies of empowerment, team working and workplace learning → employee commitment → synergy → improved organizational performance. This ‘involvement–commitment cycle’ is the reverse of the vicious circle of control organizational theorists discussed in the early 1980s. A core assumption of this approach is that committed workers are more productive. The importance of commitment to organizational efficiency and competitiveness is emphasized by Beer et al. (1984): ‘Increased commitment can result not only in more loyalty and better performance for the organization, but also in self-worth, dignity, psychological involvement, and identity for the individual’ (1984, p. 19). In the late 1990s, demonstrating that there is indeed a positive link between HRM and performance has become ‘the dominant research issue’ in the HRM field (Guest, 1997). Leaving aside the problem of securing worker commitment, how valid is the proposition that the resultant behaviours, as depicted in Figure 1.5 (Chapter 1), lead to improved individual and, in turn, organizational performance outcomes? In the rest of this chapter, we will explore the issue and problems of assessing the effects of the new HRM initiatives on organizational performance. The dominant empirical questions on this topic ask: Do we have a clear theoretical basis for classifying HRM practices? What types of performance data are available to measure the HRM–performance link? Do ‘commitment-type’ HRM systems produce above-average results than ‘control-type’ systems? Do work organizations with a better ‘fit’ between HRM practices and business strategy have superior performance (Cappelli and Singh, 1992)?

Measuring the links between labour issues and economic performance is well established in the field of industrial relations. For example, numerous empirical studies have monitored the impact of unions on wages and productivity. Although the 1960s and 70s saw research on the effects of such management initiatives as employee involvement schemes on various outcomes (attitudes, job satisfaction and productivity), Purcell wrote that if it were possible to prove that ‘enlightened or pro-
gressive’ HRM was invariably associated with higher productivity and lower costs ‘life for the... HRM executive would be easier’. As it is, there is little conclusive evidence (1989, pp. 72–3). A similar point is made by Legge (1995, p. 196) when she comments on the absence of ‘few, if any, systematic evaluations’ of ‘high commitment’ management practices on organizational performance. Guest (1997) examines the weaknesses in the current theoretical HRM models with regard to the HRM–performance link. There are still gaps in our knowledge, but North American scholars, using analytical techniques from the field of industrial relations, have recently provided important information on these empirical questions. Much of this research has been spurred on by the debates around the relative merits of Japanese management and the new HRM paradigm. American academics Ichniowski et al. (1996) give a detailed review of some of the methodological challenges researchers face in identifying the linkages between HRM practices and performance and review the findings from a body of US research using different research designs. Betcherman et al. (1994) provide evidence on the HRM–organizational performance relationship using Canadian data. Both Betcherman et al. and Ichniowski et al. argue that in spite of the hard methodological challenges, the research evidence suggests that innovative HRM practices can increase organization performance. Before reviewing the findings, let us look at some of the methodological challenges with this type of research.

**Methodological issues**

There are two main types of workplace research designs, surveys and case studies. Surveys of establishments provide a vast amount of quantitative data that can test theories and permit a statistical analysis of HRM practices and performance. However, given the nature of the research instrument, a mail questionnaire, the results cannot hope to provide an accurate picture of the subtleties and intricacies of the way work is structured and actually performed, and the dynamics of the employment relationship. Case studies, on the other hand, can provide rich data on workplace activities and can be useful for suggesting hypotheses. Case studies provide for the opportunity to test the accuracy and source of the information. For example, a mail questionnaire asking respondents to indicate, in quantitative terms, the direction and extent of changes in skills resulting from self-managed work teams, can best be done by researchers gathering data from managers and workers affected. This raises another important point about the choice of research design. The information from mail questionnaires tends to be biased because the data are generated from one source, typically personnel managers. The obvious concern is that if there is only one respondent per establishment, ‘any idiosyncratic opinions or interpretations of the questions can distort the results’ (Ichniowski et al., 1996, p. 309). The value of talking both to managers and workers is emphasized by Nichols (1986): ‘a study which systematically samples both managers and workers is always likely to provide at least some snippets of information that rarely surface in other accounts and to suggest different lines of interpretation’ (quoted in Bratton, 1992, p. 14). Case studies have their limitations. It is questionable how far researchers can generalize from case study results. Whatever the research design, the data might not provide a full account of HRM–organizational performance, because the selection bias operates against studies in badly managed work organizations.

Measuring the HRM–organizational performance relationship is problematic for researchers for other reasons: first, databases tend to estimate individual HRM prac-
tices, rather than an entire ‘system’. Second, research on the outcomes of new HRM practices requires management participation and, moreover, disclosure of commercially sensitive information on performance indicators that many managers are unwilling or unable to provide to an independent researcher. The researcher has therefore to use ‘intermediate’ performance indicators such as accident, absenteeism and grievance rates. Third, a key element in the regression equation, innovative HRM practices, is based on subjective judgements. Researchers and respondents might define a ‘self-managed team’ in different ways, with or without a ‘supervisor’ or team ‘leader’. Guest (1997) suggests that the expectancy theory of motivation provides a basis for developing a more coherent rationale about the HRM–performance link. Expectancy theory focuses on the link between motivation and theory. In essence, it proposes that individual superior performance is contingent upon high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role. According to Guest, ‘It is a short step to specify the HRM practices that encourage high skills and abilities… We therefore have a theory which links HRM practices to processes that facilitate high individual performance’ (p. 268). A fourth challenge is how to isolate external variables. For example, exchange rates can significantly affect financial outcomes (see Figure 2.5), which makes it difficult to measure accurately the impact of HRM practices. This problem is also recognized by Guest (1997) when he states: ‘We also need a theory about how much of the variance can be explained by the human factor’ (p. 268). Even if relevant indicators are made available to the researcher and the external variables are isolated, the problem of identifying the causal links remain a challenge. Do certain HRM practices lead to superior performing firms or do superior performing firms adopt certain HRM practices? In short, the implication of HRM choices for organizational performance is difficult to quantify with complete confidence. A combination of both survey and case studies probably provides the greatest confidence about the direction and magnitude of the performance effects of the new HRM practices. ‘The key to credible results’, write Ichniowski et al., ‘is creating a collage of studies that use different designs with their own particular strengths and limitations’ (1996, p. 312).

Research findings

The work by Ichniowski et al. reviews a diverse body of research on the HRM–firm performance link and the research by Betcherman and his Canadian colleagues further provides new evidence on the subject. Longitudinal case studies, in a Californian-based auto assembly plant and a US paper mill, document the reconfiguration of traditional work structures to the ‘team concept’ and subsequent improvements in productivity and quality performance. A cross-sectional comparative case study of two clothes factories found that ‘team-orientated’ work structures produced a 30 per cent advantage in overall production costs over a traditional work structure. Of the case studies examined, over 75 per cent of those that reported changes in economic outcomes also reported that these were positive. The results do need interpreting with some caution. The performance measures differ across studies and so are not comparable. Further, access to performance data may suggest that the more successful firms are overrepresented (Ichniowski et al., 1996). The findings from four intra-industry studies – steel making, automobile assembly, clothes manufacture and metalworking – show that different work configurations and worker empower-
ment arrangements associated with the new HRM model have superior output and quality performances. Of particular interest is Arthur’s (1994) investigation into the performance effects of two labour management taxonomies: ‘control’ (traditional personnel management) and ‘commitment’ (new HRM). His regression results indicate that, at least in the context of a high-tech mass production plant, commitment-type HRM practices were ‘associated with both lower scrap rates and higher labour efficiency than control’-type HRM practices (Arthur, 1994, p. 683). Second, integrated HRM innovations have a greater effect than individual HRM practices. The findings from cross-industry analyses show similar results on the HRM–firm performance link. Ichniowski et al. conclude that the empirical evidence presents a consistent picture; HRM innovations can improve organizational productivity and the magnitude of performance effects is ‘large’.

Betcherman et al.’s (1994) analysis, using data generated from Canadian companies, is consistent with the conclusion drawn by Casey Ichniowski and his colleagues. The Canadian study found a statistically significant association between the new HRM approach and unit costs, and the regression analysis confirmed that organizations that operated under more strategic and participation-based HRM models experienced outcome trends that were superior than those organizations that operated under a traditional employment model. The survey-based study of Canadian establishments provides evidence that new HRM practices operate best in certain organizational ‘environments’. The more intangible corporate ‘ideology’ variables – ‘progressive decision making’ and ‘social responsibility’ – appear to have a more significant impact on performance outcomes than team-based programmes or incentive pay plans. These results suggest that ‘innovative [HRM] practices and programmes on their own are not enough to substantially improve performance. What seems more important is that they be introduced into a supportive work environment’ (Betcherman et al., 1994, p. 72). This is consistent with Ichniowski et al.’s main conclusion that ‘There are no one or two “magic bullets” that are the work practices that will stimulate worker and business performance. Work teams or quality circles alone are not enough. Rather, whole systems [our emphasis] need to be changed’ (1996, p. 322). Looking ahead, longitudinal case studies can provide the data on the more ‘intangible’ aspects of workplace learning and change. The upshot is that the current body of empirical research finds that work organizations implementing a package of internally consistent and mutually reinforcing HRM practices, associated with the ‘soft’ HRM model, experience significant improvements in performance. This suggests an apparent paradox. If the pursuit of ‘soft’ HRM practices leads to improved organizational performance, from the perspective of ‘economic rationality’, one would expect such management practices to be more widely used. This apparent paradox may result from the long-term investment costs associated with the resource-based approach to strategic HRM and the pressure on individual managers to achieve short-term financial results.
Chapter summary

This chapter has examined different levels of strategic management. Strategic management was defined as a ‘pattern of decisions and actions’ undertaken by the upper echelon of the company. Strategic decisions were seen to be concerned with change and the achievement of superior performance and to involve strategic choices. In multивisional companies, strategy formulation takes place at three levels – corporate, business, and functional – to form a hierarchy of strategic decision making. We discussed how the choices of HRM structures, policies and practices are dictated by corporate and business-level strategies, as well as environmental pressures. When reading the descriptive and prescriptive strategic management texts there is a great temptation to be smitten with what appears to be the linear and absolute rationality of the strategic management process. In this chapter, we draw attention to the more critical literature that recognizes that the strategic HRM option at any given time is partially constrained by the outcomes of corporate and business decisions, the current distribution of power within the organization, and the ideological values of the key decision makers.

The problematic nature of strategic HRM and the two competing SHRM models – the matching model and the resource-based model – were identified. The matching model was seen to be a reactive model in the sense that HRM strategy is subservient to corporate strategy and to be more closely associated with the ‘hard’ version of the HRM model. We reviewed the literature that has critiqued the matching model of SHRM on both conceptual and empirical grounds. It was noted that in the globalized economy with market turbulence the ‘fit’ metaphor might not be appropriate when flexibility and the need for organizations to learn faster than their competitors seems to be the key to sustainable competitiveness. We also emphasized how the goal of aligning a Porterian low-cost business strategy with a HRM strategy can contradict the core goal of employee commitment. The resource-based SHRM model which places emphasis on a company’s human resource endowments as a strategy for sustained competitive advantage was outlined. Again, there seems little empirical evidence to suggest that many firms have adopted this ‘soft’ SHRM model, although there is much rhetoric and interest in academia and in many companies in the concept of workplace learning. We pointed out that senior managers are pragmatic and work organizations can adopt a ‘hard’ version of HRM for one category of workers or, in a multivisional company, for one business while simultaneously pursuing a ‘soft’ version of HRM for another group of workers or establishment to provide a coherent understanding of HRM policies and practices and why they vary. Whether senior managers adopt the ‘matching’ or the ‘resource-based’ model of SHRM will be contingent upon first the corporate and business strategies, as well as upon varying degrees of pressure and constraints from environmental forces. Case study work highlights the limitations of strategic choice model building. The growing literature on the HRM–organizational performance link illustrates the methodological challenges, but also the value of such research. The stronger the linkages between HRM policies and practices and superior performance outcomes, the stronger the case that can be made to senior management for building sustainable competitive advantage around human endowments and synergies. The empirical
evidence on the HRM–organizational performance link is promising but, as Guest (1997) correctly argues, theories of competitive strategy, strategic integration, and expectancy theory of motivation need further development and testing to create hypotheses on HRM–performance linkages: ‘the studies report a promising association between HRM and outcomes, but we are not in a position to assert cause and effect… we need to put a lot of flesh on the bones’ (p. 274). The next chapter examines some of the environmental factors that underlie managerial decision-making processes in human resource management.

**Key concepts**

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<th>Strategic management</th>
<th>Low-cost leader</th>
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<td>Hierarchy of strategy</td>
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<td>Strategic HRM</td>
<td>Workplace learning</td>
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<td>Matching model</td>
<td>Resource-based SHRM model</td>
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<td>Leadership</td>
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**Discussion questions**

1. What is meant by strategy? Explain the meaning of ‘first-order’ and ‘second-order’ strategies?
2. Explain Purcell’s statement that ‘trends in corporate strategy have the potential to render the ideals of HRM unobtainable’.
3. ‘Business-level strategies may be constrained by human resource issues but rarely seem designed to influence them.’ Discuss.
4. What is meant by a ‘resource-based’ SHRM model of competitive advantage? What are the implications for HRM of this competitive strategy?
5. What are the linkages, if any, between strategic HRM, leadership and learning?
6. Why is it difficult to accurately quantify the HRM–organizational performance link?
7. Explain why recent research suggests that the HRM–organizational performance relationship is clearer and stronger when whole ‘systems’, rather than individual HRM practices are considered.

**Further Reading**


Air National’s (AN) 1986 Annual Report glowed with optimism. Bradley Smith, CEO, stated in his letter to shareholders, ‘As a newly privatized company we face the future with enthusiasm, confident that we can compete in a deregulated industry.’ By April 1988, however, the tone had changed with a reported pre-tax loss of $93 million. The newly appointed CEO, Clive Warren, announced a major change in the company’s business strategy that would lead to a transformation of business operations and HR practices in Europe’s largest airline company.

Background
During the early 1980s, civil aviation was a highly regulated market and competition was managed through close, if not always harmonious, relationships between airlines, their competitors and governments. National flag carriers dominated the markets and market shares were determined, not by competition, but by the skill of their governments in negotiating bilateral ‘air service agreement’. These agreements established the volume and distribution of air traffic and thereby revenue. Within these markets AN dominated other carriers. Despite the emergence of new entrants, in 1983 AN’s share of the domestic market, for instance, increased by 60 per cent.

The competition
In the middle of the 1980s, Air National’s (AN) external environment was subjected to two sets of significant changes. First, in 1986, AN was privatized by Britain’s Conservative government. This potentially reduced the political influence of the old corporation and exposed the new company to competitive forces. Preparation for privatization required painful restructuring and ‘downsizing’ of assets and the workforce, driven largely by the need to make the company attractive to initially sceptical investors.

Paradoxically, however, privatization also offered significant political leverage which AN was able to deploy to secure further stability in its key product markets. It was this factor, rather than the stimulus of market competition, that gave senior management the degree of stability and security to plan and implement new business and HRM strategies. The
second set of pressures, potentially more decisive, were generated by prolonged economic recession and the ongoing deregulation of civil aviation in Europe and North America. With these environmental forces, AN attempted to grow out of the recession by adopting a low-cost competitive strategy and joining the industry-wide price war. Bradley Smith, CEO, when he displayed the following overhead transparency (Exhibit 2.1) to his senior management team (SMT) in April 1986 stated that ‘this strategy requires us to be aggressive in the market place and to be diligent in our pursuit of cost reductions and cost minimization in areas like service, marketing and advertising’.

The low-cost competitive strategy failed. Passenger numbers slumped by 7 per cent during 1988 contributing to a pre-tax loss. Following the appointment of a new CEO, AN changed its competitive strategy and began to develop a differentiation business strategy (Porter, 1980) or what is also referred to as an ‘added-value’ strategy.

Air National’s new competitive strategy
Under the guidance of the newly appointed CEO, Clive Warren, Air National prioritized high-quality customer service and ‘re-engineered’ the company. Management structures were reorganized to give a tighter focus on operational issues beneath corporate level. Air National’s operations were divided into route groups based on five major markets (see Exhibit 2.2).
Each group was to be headed by a general manager who was given authority over the development of the business with particular emphasis on marketing. The company’s advertising began also to emphasize the added-value elements of AN’s services. New brand names were developed and new uniforms were introduced for the cabin crews and point-of-service staff.

AN’s re-engineering also aimed at cutting the company’s cost base. Aircraft and buildings were sold and persistently unprofitable routes either suspended or abandoned altogether. AN’s overall route portfolio was cut by 4 per cent during 1989 alone. Labour costs offered the most significant potential savings and, with 35 000 employees AN’s re-engineering included ‘one of the biggest redundancy programmes in British history’. Once the redundancy programme was underway the company was able to focus on product development, marketing, customer service, and HR development. The company’s sharpened focus on the new ‘customer first’ programme prompted a major review of the management of employees and their interface with customers.

**Air National’s HRM strategy**

The competitive and HRM strategies pursued by AN in the wake of this re-engineering process are congruent with those SHRM models that emphasize empowerment and employee development. As the CEO, Clive Warren, stated in a TV interview:

> In an industry like ours, where there are no assembly lines or robots, people are our most important asset and our long-term survival depends upon how they work as part of a team. This means that, to get superior performance, managers have to care about how they live and develop, not just about how they work and produce.

The key features of leadership style associated with the adopted strategies were more formally illustrated by AN’s Director of Human Resources, Elizabeth Hoffman, to the SMT (Exhibit 3). In the closing part of her presentation, Elizabeth Hoffman outlined the need
for a new approach to managing AN’s employees: ‘We must emphasize to our managers that they must give up control if our employees are to improve their performance.’

As part of the ‘new way of doing things’, demarcations between craft groups, such as avionics and mechanical engineers, were removed and staff were organized into teams of multiskilled operatives led by team leaders. Even those middle managers who supported the new re-engineered workplace found this approach to managing their subordinates uncomfortable at times, as one maintenance manager acknowledged:

The hard part is having to share power. No matter how you rationalize it, after a while you want to just make your own decisions and follow it through. I confess that my own thinking tends to be hierarchical in certain situations. I like to be able to say yes or no without having to confer all the time and seek consensus from the team. So there are some real disadvantages for me in this new regime we have, but I realize it’s the right way to go.

AN instituted a series of customer service training seminars and invested in training and development. The senior management also developed a ‘strategic partnership’ with the unions. At the onset of the re-engineering process Clive Warren and Elizabeth Hoffman undertook to ‘open the books’ to the unions and established team briefings and regular, formal consultation meetings with union representatives. A profit-related pay system was also launched with the full support of the unions. In addition, the senior management held major training programmes, designed and delivered by leading business school academics, on the importance of trust, motivation and ‘visionary’ leadership.

Running parallel to these developments was the company’s concurrent objective of cost reductions. Between 1988 and 1992, AN shed 37 per cent of its workforce with nearly 25
per cent going in 1988. Job cuts were managed entirely through voluntary severance and redeployment. However, the requirement to sustain and improve performance in the face of such job losses produced a preoccupation with productivity levels and attempts to alter shift patterns at times provoked conflict. Disputes were resolved quickly and usually by the company reminding employees of AN’s commitment to job security, training and development, and through senior management ‘throwing money at the problem’.

Reviewing the last decade, Clive Warren considered that AN had been ‘transformed by re-engineering’. Deep in debt in the late 1980s, Air National went into profit in the first quarter of 1997. The company’s aircraft were flying to 164 destinations in 75 countries from 16 UK airports. AN accounted for 70 per cent of UK scheduled domestic and international passenger traffic and ‘is now the largest international air passenger carrier in the world’, said Warren.

**Task**

You are a HR consultant employed by a rival national airline to investigate Air National’s competitive and HRM strategy. Prepare a written report on the following questions:

1. What factors enabled Air National’s senior management to take a strategic approach to its business and to adopt an empowering–developmental approach to HRM?
2. How useful is the concept of ‘strategic choice’ in understanding the linkage between Air National’s competitive and HR strategies?
3. To what extent do re-engineering principles affect management development and practices?

**Notes**

1. F.A. Jaljers, Chairman of the Board of Unilever.