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Strategic Human Resource Management and Performance

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Abstract

The connection between human resources and performance in firms in the private sector is well documented. What is less clear is whether the move towards managerialism that has taken place within the Australian public sector during the last twenty years has brought with it some of the features of the relationships between Human Resource Management (HRM) and performance experienced within the private sector.

The research begins with a review of the literature. In particular the conceptual thinking surrounding the connection between HRM and performance within private sector organisations is explored. Issues of concern are the direction of the relationship between HRM and performance and definitional questions as to the nature and level of HRM to be investigated and the measurement of performance. These conceptual issues are also debated within the context of a public sector and particularly the Australian environment. An outcome of this task is the specification of a set of appropriate parameters for a study of these linkages within Australian public sector organizations.

Short Description

The paper discusses the significance of strategic human resource management in relation to performance.

Keywords

Human Resource Management
Strategy
Performance
Public Sector

Introduction

Nowadays, it is a common belief in both the business and the academic world that the human resources of an organisation can be a source of competitive advantage, provided that the policies for managing people are integrated with strategic business planning and organisational culture (Beer, Spector, Lawrence, Quinn, Mills, & Walton, 1985). This approach emphasizes the importance of congruence between human resource policies and organiszational objectives. Recent research has focused on the links between human resource management and performance (Guest 2003, 2004; Purcell 2002, 2004), and much of the growing body of international literature in the field is built upon the premise that human resource management is linked closely to the emergent strategies, especially of large organisations, both public and private. This study will use the available evidence and findings from studies undertaken within the private sector to explore the experiences of public sector organisations during a period when that sector has seen the implementation of private sector managerialism principles and techniques.

There is a need to question the veracity of the link between Human Resource Management (HRM) and performance. First, an analysis of data relating to the question of a link between Strategic Human Resource Management (SHRM) and performance reveals there is uncertainty as to the direction of the link. Can better performing organisations attribute their good performance to the quality of their HRM or is the standard of their performance due to other factors? The quality of HRM might be an outcome of performance rather than a contributing factor to that performance. Second, there are questions about the meaning of a strategic approach to HRM. What makes an organisation's approach to HRM `strategic' and is there a satisfactory method of differentiating between an approach to HRM that might be considered `strategic' or one that is not seen to be strategic?

This study is directed at testing a hypothesis that there is a good fit between Strategic Human Resource Management (SHRM) and performance in an organisation. It considers available evidence to establish whether organisations that use HRM strategically, can

demonstrate an enhanced organisational performance. Based on the literature two key questions underpin this work.

1. What evidence is there that organisations use HRM strategically with a view to enhancing their organisational performance?
2. Do organisations that take a strategic approach to HRM experience better performance outcomes?

Conceptual thinking in Human Resource Management

Within human resource management there are two main strands of thinking. The first, often referred to as the 'hard' variant of human resource management, focuses on cost reduction and containment, links with strategy and the role of HRM in furthering the competitive advantage of the organisation. The second, typically labelled 'soft' HRM builds on human relations traditions and stresses the importance of the subjects as a means of furthering employee satisfaction and a range of related humane objectives that are achievable from the insights of systematic studies within HRM.

The two levels of philosophy and practice here are inextricably linked in much of the writing on the subject, although it is important to distinguish the 'analytical' from the 'normative' dimensions. Normative models or theories of this type are more prescriptive in their approach reflecting the view either that a sufficient body of knowledge exists to provide a basis for prescribed best practice or that a set of values indicates best practice. Often these two perspectives become conflated. Guest (1997) attempted to capture some of the spirit of this approach by seeking to represent it within a coherent framework, specifying some of the links so the resulting model can at least be tested and possibly refuted. Descriptive research involves attempting to define or measure a particular phenomenon, usually by attempting to estimate the strength or intensity of behaviour or the relationship between two behaviours. In other words, these approaches set out to describe the field in a comprehensive way. Beer, Spector, Lawrence, Mills and Walton (1985) and Kochan, Katz and McKersie (1986) attempt to capture the broad field and to

address some of the interrelationships. For Beer et al. (1985) this means listing four broad areas of HRM policy and practice and four key outcomes. For Kochan et al. (1986) it entails a systems approach describing the interrelationships between the levels.

It also must be noted that categorizing the field in this way is not unproblematic. The twofold division into the prescriptive schools on the one hand, the various descriptive schools on the other, is crude. It is as likely to mislead as to clarify. Much of this classification is focused on the process dimensions of strategy formulation with the result that some categorization must be forced. Nevertheless, such typologies are useful to the extent they draw attention to the variety of perspectives represented in the strategic human resource management literature and the variety of narratives within the discourse.

Human Resource Management and Performance

Embedded in the literature is the issue of what precisely is meant by performance. Research in this area is faced with the challenge of defining the variables to be used in such an analysis. Definitions of performance measurement frequently distinguish among activities (e.g. workloads), outputs (e.g. number of completed payroll transactions), outcomes (or effectiveness, e.g. achieved its goal) and efficiency (e.g. measures of the cost per outcome or output).

Berman, West & Wang (1999) examined the use of performance measurement in human resource management in U.S. counties. This research found that performance measurement is widely used but many measures reflect traditional concerns with compliance, but measures are also used to assess reforms in recruitment and compensation. Importantly from a public sector perspective this study also finds that mission orientation and broad support affect the use of performance measures in HRM, as well as technical ability to gather such data.

Lynn (1998) raises some important considerations for the public sector at a macro level, not unlike the notions raised by Purcell (2004), Guest, Michie, Conway & Sheehan

(2003) in relation to human resource management and performance, and the intervening process connecting HRM systems and organisational performance, remains unexplored.

For Lynn (1998) the questions for the public sector are:

- How can we conceptualize the performance of governments in terms of the many types of outputs and outcomes, results and processes, adding value to democratic constituencies?
- How can we evaluate the contribution of actual and proposed administrative reforms, for example those premised on competition or on outcome measurement to governmental performance?
- What are the positive and normative implications of different approaches to situating the power to allocate and take risks with public resources?
- How can we situate the power to allocate and take risks with public resources?

Arthur (1994) investigated the impact of different approaches to HRM on the productivity in steel mini mills in USA. The findings produced by this showed that the mills with commitment systems had higher productivity, lower scrap rates, and lower employee turnover than those with control systems. In addition, human resource systems moderated the relationship between turnover and manufacturing performance.

Youndt, Snell, Dean, & Lepak (1996) in their early research explored the link between HRM and strategy and performance and the findings support a contingency approach to HRM. They did this by hypothesising about a number of possible relationships between strategy and performance. This early research is useful in raising two issues, first concern about measurement and variables that might be used. Second, issues of whether a functional level study is better than a business or corporation level study are considered. This research raises similar themes to that of Hutchinson, Kinnie, & Purcell, (2001).

Guest et al. (2003) undertook a study of 366 companies using objective and subjective performance measures and cross-sectional and longitudinal data. The study confirms an

association between HRM and performance but fails to show a causal relationship between HRM and performance.

In other work, Purcell (2004) undertook a three year study to assess the impact of people management on organisational performance. Purcell noted, while some have been able to show an association between human resource (HR) policies used and performance outcomes it was often hard to explain when, why and how this association existed and to identify the interconnections.   Purcell (2004) refers to this as the 'black box'. He concluded that the impact of people management on organisation performance is more obvious in the medium than it is in the short term and it is here that investigations of high commitment management are particularly relevant.

Harper and Vilkinas (2005) consider performance management systems (PMS) from key stakeholders, managers' and employees' perspectives. Their study makes two key points. First, the stakeholders and managers stated that the PMS had a more positive impact on the performance than did the employees and second the study highlights the difficulties encountered when evaluating PMS. This research notes that differing evaluations of impact will arise according to the perspective from which the impact is being observed.

Royal and O'Donnell (2005) argue qualitative human capital analysis would assist in predicting the sustainability of organisations and their future financial performance. Notably here, performance is defined in relation to sustainability and financial performance.

Gollan (2005) outlines a number of issues for organisations to consider when pursuing sustainable high performance workplace outcomes through high involvement management (HIM). He similarly notes corporate profitability and corporate survival as a component but also includes in the equation those that satisfy employee aspiration and needs in the workplace. Golan (2005) notes critical assessment of the high performance literature and research by John Godard (2004). In short these criticisms note while some

practices may increase performance, it is likely that proponents not only overestimate the positive effects but also underestimate the costs.

Hutchinson, Kinnie and Purcell (2001) report on a longitudinal study investigating how and why people management practices affect business performance. In relation to the notions of people management and performance a number of aspects demonstrating the difficulty of demonstrating performance impact are identified. First, the relationship between HR practices and business performance can be identified at different levels ranging from the plant/establishment level through to the corporation level. Second, there is a lack of consensus on what constitutes a HR package and no agreement on the level of specificity or HR practices. Third, there is a different way of measuring HR practices and a limited use of performance measures. Fourth, in some cases sophisticated measurement techniques are used and these are hard to understand. Finally, few studies take account of the reaction of employees so that it is difficult to understand how the HR practices feed through to improved levels of performance and thus causality is an issue.

Guest (1997) makes a similar point that there is a need for a basis for comparison, either cross sectional or longitudinal, and also a need to understand the relationships between types of performance data.

Much of the research on human resource management and performance places an emphasis or assumes that each organisation is pursuing an integrated set of business objectives and human resource practices which sits in contrast with at least three recent developments. First, it seemingly is at odds with the move towards more flexible internal structures associated with different forms of cooperation and collaboration among organisations and some of these include 'strategic alliances', 'business networks', 'joint ventures', and linkages'. The second development is the trend towards outsourcing and inter-organisational contracting. This approach, however, does not consider the influence of multi employers and customers in the shaping of the employment relationship (Rubery, Earnshaw, Marchington, Cooke & Vincent 2002.) Much of the discussion about organisational performance is conducted as though organisations are homogenous

entities with clearly defined boundaries and similar contexts and characteristics. However, these recent developments suggest the need to understand the boundaries and how these might impact on organisations and the employment relationship.

Implicit in this discussion is the changing nature of public sector and private sector employment relationships. In the 1980s and 1990s a similar set of administrative reforms occurred in Western industrial democracies, with these reforms now also appearing on the agendas of countries in Eastern Europe, Asia and Africa.

While the reform process is global, it varies in different societies and different public sector cultures. Pollitt (2002) identifies seven aspects in relation to changes in the public sector and this research, importantly, notes the reform needs to be understood in context. Running through these reforms is the belief in the efficiency of the market mechanism with greater emphasis upon performance and performance measurement.

Although improved financial management was a key strategy in public sector reform, financial management is not the only aspect of strategic management. Other resources at the disposal of government are human resources, in particular employees' expertise or knowledge management. Thus public sector renewal has focused also, but to a lesser extent, on reforming human resource management in the public sector. Similarly, public sector renewal has focused thought to an insufficient extent on reforming or even initiating knowledge management.

The main conclusion one can draw from reviewing the literature is that, although the issue of strategic fit and its link to firm performance has been extensively examined, as Panayotopoulou, Bourantas and Papalexandris (2003, p. 682) state "research has failed to consistently support the efficacy of fit".

Strategy and Human Resource Management

It is helpful to first focus on business strategy since the meaning of this term is more exhaustively explored within the literature. Boxall and Purcell (2003) argue that 'it is possible to find strategy in every business because it is embedded in the important choices managers and staff of the firm make about what to do and how to do it' (p. 28). It is referred to by them as strategic choice or as the strategies firms adopt in dealing with strategic problems. A further dimension to this is that strategy is directed towards either maintaining viability of the organisation and/or producing sustained advantage in the markets in which the organisation exists.

A key issue to be resolved is how (if at all), HRM plays a part in influencing the direction and shape of the evolving strategy. Further, if HRM is considered an integral part of the process of strategic choice, how is its influence affected? As with business strategy, it might be that strategic HRM is seen as contributing to strategic choice within the organisation by either maintaining viability or producing a sustained advantage.

So, strategic HRM emphasizes the need for Human Resource (HR) plans and strategies to be formulated within the context of overall organisational strategies and objectives, and to be responsive to the changing nature of the organisation's external environment. It is a model, which, like all models, requires interpretation and adaptation by practitioners to ensure the most suitable fit between HR and business strategies and plans. Thus the overall themes of Strategic Human Resource Management (SHRM) are the integration of all HRM functions, adherence to broad organisational goals and responsiveness to the external environment.

The term strategy is used to explain both the processes (e.g. organisational restructuring) and the outcomes (market position) of chosen long-term directions. It can be either a conscious, planned activity or a series of events, which lead to a desirable objective. As discussed above, SHRM is concerned with ensuring a strategic 'alignment' or 'fit' between business and HRM strategies. It necessarily involves an evaluation of the likely

impacts of both the external and internal organisational environment, the long-term goals of the organisation and the ways in which HRM strategy will enable the adaptation of human resources towards these goals.

Nankervis, Compton and Baird (2005) identify three types of linkages between HR and organisational strategies. First, there is the accommodative type. Here, HR strategies simply follow organisational strategies, accommodating the staffing needs of already chosen business strategies. So strategic in this sense is for HRM to follow the organisation's business strategy. Second, there is the interactive type. It is characterized as a two way communication process between HRM and corporate planning in which HRM contributes to, and then reacts to, overall strategies. For this type, strategic HRM asserts that HRM is an active contributor to strategy development and execution. Third, there is a type known as fully integrated. For this type the HR specialist is intimately involved in the overall strategic process in both formal and informal interactions, a real reflection of strategic human resource management in practice (Nankervis et al, p. 37). The degree of involvement will extend to HRM being fully represented at the senior management group level and HR personnel actively participating in strategic decisions and it might even involve an HRM appointment to the Board of Directors.

The empirical evidence of strategic HRM within the private sector is quite limited and almost non-existent in the public sector. Some research, although by no means exhaustive nor conclusive, has been conducted into the application of SHRM theory to organisational HR practice in the United States, the United Kingdom, Europe and, more recently, in Australia, New Zealand and Asia. Most studies have been relatively small and, arguably, unrepresentative of industry as a whole in these regions. Martell and Caroll (1995), among others, have researched SHRM in the United States; Purcell (2002, 2004), Storey (1995), Legge (1995) in the United Kingdom, Australia and Asia have conducted surveys to determine whether organisations have actually converted the 'rhetoric' of SHRM into operational practice. Overall the results are not greatly encouraging.

The American studies provide most support for the practice of SHRM. Martell and Carroll (1995), for example, reporting on a small survey, suggest that two thirds of their sample had integrated HRM and strategic planning systems within their organisations. Further, HRM executives were involved in planning processes and were strategic partners. However, they also concluded that, while considered important, HRM was not seen as important as other business functions, e.g. marketing and finance, in its contribution to overall organisational success.

Two recent Australian and international studies suggest that the link between SHRM theory and practice is still somewhat tenuous. Tebbel (2000) and Kramar (2000) conclude that, while advances have been made toward the alignment of HR and business plans and the alignment of all HRM processes and integration of HRM within organisations, HR managers still have to demonstrate their credibility and the contribution they can make to the business.

Many authors question the underlying philosophies and practical applications of HRM models. Similar concerns are raised about SHRM. Its managerial focus, strategic perspectives and 'realities' of HR practice have been questioned by several writers (Legge 1995; Guest 1997). SHRM is certainly concerned primarily with contributing to the 'bottom line' success of an organisation, which may sometimes involve a unitarist approach to the management of employees. SHRM may also infer a 'hard' HRM focus, which does not sit comfortably with some authors. However, as Legge (1995) points out, 'If HRM, in either its 'hard' or 'soft' guises, involves the reassertion of managerial prerogative over the labor process, the strategies of flexibility reflect and constitute a path to this, …employees as both resourceful humans …and human resources…'(p. 172).

Tompkins (2002) explores unresolved issues regarding the meaning of Strategic Human Resource Management (SHRM) and its relevance to organisations within the public sector and contends that tying it too closely to strategic planning undermines the value of the concept. His view is that most discussions of strategic planning fail to define what the term strategy means in a public context. Because public agencies are embedded in

authority networks rather than economic markets, what it means to select a 'business strategy' is much less clear. Strategies are produced in response to a variety of competing signals that emanate not from markets but from complex political, economic, legal, and organisational structures processes, and relationships.

The strategy concept has developed as an important aspect of managing as the dynamics and complexity of the world and business environment have increased. It seems fairly clear that the various schools of theory are incomplete and debates over their merits exist because they are based in different paradigms. There is a major divide between theories that see strategy as deliberate, the planned approach and performance designed by senior management and those that see strategy as evolving, actions arising from discourse and networks of people within the organisation.

This leads to the understanding that the notion of strategy is not neutral. How it is defined and used in organisations will impact on the conceptualization of human resource management. Further, the varying research into the notion of strategic human resource management and performance and the subsequent inconsistent results only attest to the different constructs of strategy.

If there are different paradigms of strategy, then the 'black box' that Purcell (2004) defined as the interconnections that were difficult to explain in relation to an association between HR policies used and performance outcomes, then exploration of this becomes trickier, as the context the black box exists in contributes to its construction.

So, in the human resource literature there has been a debate over the compatibility between an integrated and consistent HR strategy and the need for alignment with business needs (Legge 1995; Boxall & Purcell 2002). This dilemma has focused on the issue of whether all organisations should pursue a high commitment (best practice) bundle or adopt a more flexible, approach, allowing business units to aim for best fit with the external environment. Purcell (2004) has moved beyond this debate by rejecting the

universal best practice solution as unsuitable to different business situations, and the best-fit concept as mismatched with the dynamic and strategic approach.

More generally, this reinforces the notion that the categories which the more rational perspectives on strategy treat as unproblematic – competence, the environment, competitiveness are themselves all constructs, not things in themselves. The means of them shift as they are positioned in the strategic story and in how they relate to each other. The knowledge and power behind them is not taken into account in the more dominant forms of strategy.

Conclusion

This paper has reviewed the literature and the considerable discussion and deconstruction of various elements of human resource management, strategy and the links between these elements. While there is considerable discussion in relation to organisations using HRM strategically with a view to enhancing their organisation performance the actual implementation seems variable. The literature would seem to suggest that there is some evidence for the private sector experiencing better outcomes under certain conditions but seemingly less evidence or investigation of the public sector. With the public sector seemingly being recast through the influence of new managerialism, it is timely to consider whether organisations in this sector see HRM differently to how they have viewed it in the past. Further, research as to whether HRM is viewed as strategic within a public sector organisation and how it might be linked to that orgnanisation's business strategy should be undertaken to establish whether approaches to human resource management and performance management taken in the private sector are replicated within a public sector setting.

The review of the literature also suggests there is a multi layer framework in which human resource management and performance is located. First, many different contexts both influence and constrain the construction differentiated by international, national and

organisation contexts. To this can be added the institutional arrangements in any particular national system and the public and private sectors.

Second, is the relationship between organisations and workers, increasingly secured through different modes and forms of involvement and attachment, ranging from an alienative to a moral involvement and from compliance to commitment as the basis for the ongoing attachment.

Third, the employment relationship and the interaction between the worker and employer has focused attention on outcomes. At one level, these outcomes can be perceived in terms of whether they are processes, procedures or practices, but at another they can be seen to be a mechanism for securing the objectives of the parties.

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4. Introduction. Nowadays, it is a common belief in both the business and the academic world that the human resources of an organisation can be a source of competitive advantage, provided that the policies for managing people are integrated with strategic business planning and organisational culture (Beer, Spector, Lawrence, Quinn, Mills, & Walton, 1985).Â This study is directed at testing a hypothesis that there is a good fit between Strategic Human Resource Management (SHRM) and performance in an organisation. It considers available evidence to establish whether organisations that use HRM strategically, can.

5. Human resource management (HRM or HR) is the strategic approach to the effective management of people in a company or organization such that they help their business gain a competitive advantage. It is designed to maximize employee performance in service of an employer's strategic objectives. Human resource management is primarily concerned with the management of people within organizations, focusing on policies and systems. HR departments are responsible for overseeing employee-benefits design

Part 1 the framework of strategic human resource management.