Best practice and best fit: Chimera or cul-de-sac?
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There is an emerging body of empirical evidence on both sides of the Atlantic which appears to point decisively in the direction of a model of best practice in human resource management. This has led to extravagant claims on the universal applicability of the best practice model, implying one recipe for successful HR activity. For example:

> The implication of this research is that high commitment management [HCM] is universally applicable.
>
> *Wood, 1995: 57*

> All else being equal, the use of high performance work practices [the American term for HCM] and good internal fit should lead to positive outcomes for all types of firms.
>
> *Huselid, 1995: 644*

> As a test of various theories of HRM, the regression analysis, identifying as it does, internal as opposed to external or technological factors as the main predictors of the level of HCM (high commitment management) supports the universalism of Walton rather than the contingent argument of the matching theorists.
>
> *Wood and Albanese, 1995a: 242*

Recently authors have been more careful in their claims of universal applicability, but pressure to show that good practice in HRM has bottom line benefits has led to the optimistic reporting of research data in the professional HRM press. For example, the fascinating study by the Institute of Work Psychology and the Centre for Economic Performance – referred to here as the 'Sheffield study', (Patterson *et al*, 1998) – suggests in the executive summary that '... if managers wish to influence performance of their companies, the most important area they should emphasise is the management of people.'

Thompson's initial results from a study of the UK aerospace industry is more circumspect, but he reported that:

> High performing establishments, as measured by value added per employee, tend to use a wider range of innovative HR practices covering a high proportion of employees. There is clear evidence that adopting these innovative practices is associated with more effective organisational performance.
>
> *Thompson, 1998a: 40*

Taken to extremes the search for best practice tends to take on the flavour of a moral crusade seen most vividly in the popularist books such as Pfeffer's *Competitive Advantage through People: Releasing the Power of the Workforce*. Although a wealth of detail is provided, the unmistakable thrust of the analysis is that all firms can and should adopt a set of human resource management practices for the combined benefit of the firm and its employees. The utopian quality of the best practice, normative model of HRM is expressed most clearly by Walton:

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> The new HRM model is composed of policies that promote mutuality – mutual goals, mutual influence, mutual respect, mutual rewards, mutual responsibility. The theory is that policies of mutuality will elicit commitment, which in turn will yield both better economic performance and greater human development.
>
> ***Walton, 1985, quoted in Guest, 1995: 119***

This, as Guest has recognised, is the stuff of the American dream. This line of argument was, and is being, developed at a time of growing income inequalities, falling scores of favourable attitudes towards work and management, and the emergence of a different form of secondary labour market within blue chip as well as cowboy companies. They all go down the contingent labour, sub-contracted, outsourced, temporary worker route, set in the context of debates on the 'end of work'. The optimism implicit in the best practice or universal model has libertarian consequences. Since all will gain by adopting HCM, there is no need for state intervention; neither for any form of labour market regulation; nor for trade unions, since employers will recognise that both profits and employee welfare can be maximised. Top managers and equity owners can therefore be relied on, as rational economic agents, to act in their own best interests, since these coincide with the needs of employees for mutual benefit.

If high commitment management is universally applicable, only two substantial problems remain to be tackled. First, the need is to identify components of HCM, what authors increasingly refer to as the 'HR bundle' (MacDuffie, 1995) or 'systems of HRM policies' (Ichniowiski *et al*, 1996). The internal mutual compatibility of the components of the bundle, the way any one policy reinforces the effectiveness of the others, usually referred to as 'internal fit', needs also to be resolved. Unfortunately there is little agreement among researchers on quite what practices and policies do lead to better performances (Dyer and Reeves, 1995; Becker and Gerhart, 1996), and very little has been done to test internal fit.

The second problem is one of diffusion. If HRM is 'the most important' area to focus on if managers want to improve organisational performance, as claimed in the Sheffield study, why do so many firms fail to do so? The title of Jeffrey Pfeffer's article on the difficulties of diffusing best practice is instructive: 'When it comes to "best practices" – why do smart organisations occasionally do dumb things?' (1996: 36). He quotes evidence from the US textile industry, which continues to use the bundle system of production based on Taylorist work organisation despite the existence of the alternative 'modular' system:

> The bundle system of production – characterised by low wages, high rates of occupational injuries, little career mobility, and poor economic performance – appears to be advocated by no-one. Nevertheless, in 1985, 97 per cent of all textile manufacturers employed this system, a number that declined only somewhat to 90 per cent by 1988 and 82 per cent by 1992.

This is a classic case of isomorphism. The usual suspects are rounded up: power, politics, hierarchy, leadership, financial reporting and short-termism. This familiar litany is good and persuasive but it misses the point on the link between strategy and HRM. Indeed, what is most notable about the best practice model is that there is no discussion on company strategy at all. Boxall (1999) draws attention to the existence of the alternative production method in the textile and garment industry known as modular manufacturing. 'Modular manufacturing represents more ambitious objectives for both human capital and human processes: it requires more varied skills of the individual worker and relies on team work...' He quotes the work of Dunlop and Weil (1996) to explain why modular manufacturing has not diffused rapidly throughout the textile and garment industry. The

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adoption of modular manufacturing implies major parallel change in production and marketing technologies such as retail information systems. 'Research in this sector, therefore illustrates... the interrelationship between choices of human and non-human resources in a firm. The fact that an HR expert might label modular HR practices as "best practice" doesn't mean that firms will adopt them if related non-human investments are not deemed worthwhile' (*ibid*). Problems of diffusion or more widely the adoption of different types of HRM can only be understood if they are related to company strategies in markets, technology and organisation.

The claims of universalism have to cope with the uncomfortable findings in Wood and de Menezes' (1998) reworking of the 1990 WIRS data set (using statistical techniques which are impenetrable to most of us). This shows that it is not only firms with extensive high commitment management that show good results in terms of performance, although the measures used were necessarily crude. The existence of Guest's 'black hole' (1995) and Sisson's 'bleak house' (1993) is confirmed.

That is, the control or cost minimisation type of human resource management can be equally successful in performance terms. The obvious question, which reopens the debate on the contingent or best fit model of HRM, is in what circumstances does the high commitment management style and a control style apply and how do firms choose between them?

The purpose of this article, beyond casting doubt on the best practice model, is three-fold. First, there is a need to look at the consequences of adopting a research methodology based on the generation of large scale data sets. Has the search for the golden mean of HRM and company performance led to undue reliance on one method of data collection? This is the problem of measurement. Secondly, the question of the link to strategy needs to be considered in order to try to find the circumstances when different types of HRM apply. This requires some consideration of the contingency approach. Thirdly, the central problem of most contingency analysis, the inability to cope with change and the inter-connection between contingent variables, leads to the conclusion that the most fruitful area for linking HRM with the behaviour of the firm is centred on the management of change.

LARGE SCALE DATA SETS AND THE PROBLEM OF MEASUREMENT

The dominant research paradigm in the USA is quantitative analysis generating large-scale data sets via postal surveys (not face-to-face interviews as used by successive WIRS, and now the 1998 WERS). The most notable exponent of this method is Huselid (1995). The aim is to get enough responses from a large number of firms in a short period and thus be able to make estimates of the extent of usage of certain, measurable HR practices and link these to certain company characteristics. This certainly copes with the fundamental problem of case study-based analysis, that of generalisability. But can we rely on the data? There are a number of problems which seriously weaken the utility of these studies (Ichniowski *et al*, 1996).

Single respondents answering quick questions. Researchers using large scale data sets based around self-completed questionnaires usually delivered by post inevitably select items that can be easily described and measured. This leads to two particular problems. First, there is a reliance on one respondent to represent the whole of the firm and secondly, reliance on a design of questions that encourages the respondent to tick a box and not go to the file to find the answer. Gerhart (1999) has sought to estimate the weakness of single respondent surveys arguing that there is a statistical need for multiple sources of data. The

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use of single respondents is especially worrying when they are asked to give judgmental answers to questions such as how the firm compares with others. This requirement to give estimates occurs across a whole range of questions on HR practices and the competitive position of the firm and can be a source of considerable over-estimate. A good example comes from the 1990 WIRS where questions were asked of the firm's performance relative to its competitors. In a large majority of cases this was reported to be better than average. This risk of response bias can only be checked if the research method includes case study follow-ups, as Guest and Hoques' (1994) did, or the use of multiple respondents as Huselid is now doing.

Are processes excluded? What is much more worrying is the way in which hard-to-measure items get to be ignored. In particular the huge research and literature on work and management processes seems to be side-stepped because it cannot fit the research design. We know from research on involvement and participation and on team working that huge differences exist between firms on the nature of the process developed within seemingly similar structures, just as we know that the purpose and actual value of merit pay can vary hugely. How much confidence can we have in the answers to these Huselid questions? Are they capable of capturing anything but the very crudest of facts?

> What is the proportion of the workforce who participate in QWL, QC and labor management participation teams? What is the proportion of the workforce who have access to company incentive plans, profit sharing plans, and/or gain sharing plans?
>
> ***Huselid, 1995: 646***

It is worth recalling that Bowey and Thorpe (1986) found that it was not the type of pay system introduced that affected the outcome but the use of consultation in the design phase – *ie* that process was more important than content. This is, to a degree, recognised by some researchers testing the best practice hypothesis:

> Why don't all firms adopt the most productive HRM systems?... Our interview evidence suggests that hard-to-measure factors such as trust between labor and management may be important determinants of the expected benefits of new HRM practices. While sets of progressive HRM practices are important for maintaining workers, trust that they can be rewarded, overcoming current mistrust in implementing new practices is a very costly and uncertain process.
>
> ***Ichniowski et al, 1995: 55***

The problem is that, in collecting data on the use of certain HR techniques in the bundle and connecting these with output measures (which are often very crude), we take for granted that the explanation for 'improvements' is the impact these techniques have had on worker effort, morale, cooperation, attitudes and behaviour. But these are not themselves studied. Too much is assumed on the process connection; and other factors might plausibly be important like downsizing and delayering, increased technical investment, the experience of crisis or a change in management. The recent interest in the psychological contract is a major step forward but this requires surveys of employees. The decision to include employees in the major 1998 WERS survey will hopefully allow for a much more sophisticated analysis based on multiple respondents. Longitudinal research such as the Sheffield study (Patterson *et al*, 1998) and the aerospace project (Thompson, 1998b) should illuminate these process issues. While there may be a valid statistical

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association between the HR bundle and performance, until we know how this impacts on performance and in what circumstances, the policy implications will remain limited or unconvincing to the sceptical executive.

Which employees are included? When questions are asked about the proportion of the workforce included or covered by a certain technique, which employees does the respondent have in mind? Clearly it will not be those in outsourced services, nor will it be the growing army of contingent workers who work on site but are employed by such firms as Manpower or Adecco. (For example, around three quarters of the workers on the Hewlett Packard manufacturing site in Bristol are agency employees excluded from the 'HP Way'.) Will it include temporary or short-term employees unlikely to be covered by the expensive bundle of HR practices? Managers, like other people, can be remarkably blind to the disadvantaged who simply get forgotten. In other words, while it is perfectly plausible for high commitment management to apply to core employees, does it apply to those on the periphery in the same firm, and do surveys pick this up? This problem of who to include within the boundary of the firm is likely to be come acute with the growth of contingent work among professional and technical workers (Mutusik and Hill, 1998: 680). One of the justifications for the use of such 'knowledge-rich' contingent workers is the ability to dismiss the contingent worker summarily if she or he does not have the requisite skills (*ibid*: 693). At the least this implies a growing bifurcation of management styles within the firm, not along old hierarchical lines but by contract types. Does HCM for some rely on more transactional contracts for others?

Another Hawthorne effect? Bhargava's rather narrow study of profit sharing raises a fascinating possibility that what the tests of HR bundles are doing is picking up, not something that is universal in time and place, but rather a reflection, or perhaps a shadow, of a change process. He noted:

> This result confirms our claim that the introduction of profit sharing has a one-off favourable effect on profitability... Once profit sharing is in existence it does not appear to contribute to higher productivity.
>
> ***Bhargava, 1994: 1052***

Ichniowski *et al* draw attention to the fact that 'productivity increases are observable with exactly the same equipment and same workers after lines adopt more progressive HRM systems' (Ichniowski *et al*, 1994: 45) This too could be a one-off effect of a change process. This is in no way to diminish the value of the research but to ask what is the phenomenon that is being studied. We might hypothesise that the high commitment management bundle is at its most effective when applied in situations of simultaneous change to human and non-human resources; that the effect may be to trigger a one-off boost to profitability and that the way change is managed is as important as the bundle itself. It is necessary for there to be a flexible fit between HR changes and wider, non-human resource changes which involve HRM practices, employee skills and employee behaviour (Wright and Snell, 1998).

Causality. Arthur was careful with the interpretation of his findings in US mini steel mills:

> ... although the findings of this study are consistent with a conceptual model in which choice of human resource systems leads to changes in manufacturing performance, the cross-sectional data used here did not permit any tests of causal ordering between effects of system and performance. It is possible that

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> better performing mills also have additional resources that facilitate management's choosing commitment systems.
>
> *Arthur, 1994: 684.*

Indeed, it is logically possible to assert that there is either no causal connection between high commitment management practices and economic performance, or that a management that is good at managing people is also good at managing production, supplies, marketing or whatever. The likelihood of reverse causality, allowed for by Thompson (1998) in his aerospace study, has to be taken more seriously than is often the case. Delery and Doty, while claiming the universality of their research findings despite the focus on a single occupational group (loan officers) in one industry (banking) and one country (USA), grudgingly admit that the research design 'does not rule out the possibility that organisations performing well might adopt a greater number of high quality HR practices' (1996: 830). This is particularly the problem of one-off, snapshot, surveys. The matter of causality can only be studied in longitudinal or time series studies, as in the Sheffield study.

We must certainly question the bold statement, 'systems of HR determine productivity' (Ichniowski *et al*, 1994: 39). This implies that HR is the prime or dominant function in the firm. This type of 'oughtism' can be found in marketing, IT or any other functional specialism. The key issue is the integration of human and non-human resources and how this is achieved over time. It is more plausible to argue that it is the appropriateness of the human resource system to the operations, marketing and financial systems and strategies that is key, and it is the 'inappropriateness' that may have negative performance consequences rather more often than the HCM bundle has positive superior outcomes. This search for appropriateness takes us into the area of business strategy and contingency analysis.

THE LINK WITH STRATEGY

Strategy is at the heart of the best fit/best practice debate. If the best fit school prevails, then it should be possible to model the type of HR 'needed' for a given type of business and the conditions necessary for this to be adopted in a wide number of firms in similar circumstances. Of course, people like Miles and Snow (1978) and Jackson and Schuler (1995) have done this modelling, but the empirical testing has proved disappointing. It will always be the case that the problems of bounded rationality, or rationality in strategy making, and the gap between espoused and enacted strategy will always severely limit this approach. There are three limitations to current research on the link with strategy: the focus on business strategy, the type of strategies examined, and the emergence of the resource-based view of strategy.

1.Business strategy

The usual categorisation of strategy HR researchers use is that developed by Porter in 1980. The critical division is between firms attempting to achieve differentiation from the competition in the same product market by providing specialist or distinctive levels of service, product range, flexible response or quality such that the customer is prepared to pay more than the standard price. In this way value is added to the product and reflected in the product price. There are obvious examples in most consumer markets. An additional element is the extent to which the market strategy is focused or broad, as in the notion of niche markets being highly focused. This allows for the firm to adopt both niche and broad focus by competing in a variety of types of markets. The crude alternative to differentiation is cost leadership. Here the assumption is that the firm seeks to be the lowest cost producer

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able then to have lower prices, *ceteris paribus*, than the competitors. In practice, Porter observes, many companies are 'caught in the middle', able neither to differentiate nor to achieve costs to be a price leader. This is a neat categorisation with intuitive appeal, even though some firms might be able to achieve both lowest costs and product differentiation (Miller, 1992). Can it be operationalised as a research tool? Here is how Huselid (1995: 650, emphasis added) did it:

> The degree of correspondence between each firm's competitive strategy and its system of high performance work practices (was based on) Porter's dominant typology of competitive strategies in the business policy literature; the types specified are cost leadership, differentiation and focus. *To provide an estimate of a firm's competitive strategy each respondent indicated the proportion of its annual sales derived from each of those strategies.*

I really do not know a personnel manager who would be able to give estimates of this sort, and I am not sure that many general managers would do much better. It may be, of course, that this type of categorisation of strategy is well known and in common parlance in the USA. However, at the least it would need to be verified by case visits. It also confuses a strategy (intention for the future) with a measured outcome (the consequences of past action). It presumes that all firms have clear market strategies and that these are appropriate for their market circumstances. It also appears to ignore the complexity of multi-divisional, multinational, multi-product organisations, where corporate managers have limited knowledge of divisional activities (Purcell and Ahlstrand, 1994). Arthur (1992, 1994) used outcome measures based on the same type of Porter classification but with a degree of sophistication that only a single industry study can use. But such industry studies, of course, can never yield results which are universally applicable – this limitation is true for Macduffie (1995) (motor car assembly) Ichniowski *et al* (1994) (steel) and Arthur (1992, 1994) (steel minimills) as all three readily acknowledge.

There is value in this approach. It is worth looking at Arthur's study of steel minimills in some detail. Unlike many commentators, for example, Youndt, Snell, Dean and Lepak (1996: 838-9) who see Arthur's work as evidence of universality, my reading of both of the Arthur papers (1992, 1994) is one of strong support for the best fit or matching model.

> As predicted, mills with low-cost business strategies were more likely to have control human resource systems and mills with differentiation strategies were more likely to have commitment human resource systems.

In the earlier paper where, interestingly, he used the term 'industrial relations system' instead of 'human resource system', Arthur shows that 'ninety per cent of the mills following a low-cost business strategy have a cost reduction industrial relations system, and 60 per cent of the mills following a differentiation business strategy have a commitment-maximising industrial relations system' (1992: 501).

Should the less than perfect fit between differentiators and commitment-type HR systems worry us? Seemingly 40 per cent of the differentiators used control, cost minimisation systems of HR or some indeterminant version in the middle. In a footnote (1992: 501) we find that eight of the nine mills with poor fit had been subject to a takeover just preceding the research. We must allow for firms to have the wrong strategy and this disruption might explain it. It is also possible that a highly efficient low cost producer could operate in a differentiated market niche, as indicated by Wood and de Menzes (1998) in their confirmation of the link between 'bleak house' and high levels of performance.

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What is the incentive for firms to adopt high commitment management? Arthur showed that low cost producers sought to supply basic steel at prices below competitors, had less product variety, did not value the ability to switch quickly between shapes and grades or to develop new techniques compared with the differentiators. In HR terms these mills had fewer craft workers, less problem-solving activity, spent much less on training, had lower wages and a higher reliance on incentives (Arthur, 1994). In addition, these low cost producers had higher labour turnover and poorer manufacturing performance (*eg* higher scrap rates) than the differentiators, but we do not know about their financial performance. This lower performance is hardly surprising. It is plausible to suggest that low cost producers were making a trade-off between quality and quantity. There is a strong disincentive to invest in HCM unless some other contingent factor such as technological change spurs an HR policy reappraisal (Dunlop and Weil, 1996). This is confirmed by Pil and MacDuffie (1996) in their study of motor vehicle plants. Some US and Canadian plants continued with traditional work practices because they remained successfully focused on building a single model at relatively high volumes, reaping economies of scale (MacDuffie and Pil, 1997). It was either new plants or old plants with poor levels of performance which opted first for flexible production and high involvement work practices, as they call HCM. Logically it follows in terms of financial performance that differentiation and cost leadership, or any combination of strategies, can be equally profitable provided they are appropriate strategies. Straightforward, bottom line tests of HR systems are ruled out by the matching, best fit model.

The search for links between HR systems and business strategies is useful, provided much better modelling and measuring of business strategies can be developed. Miller (1992) suggested on the basis of his research that there are three types of differentiation strategies: pioneering, salesmanship and quality leadership, and showed how strategy configurations can combine quality and cost leadership. He indicated that there are likely to be industry patterns to strategies so that sectoral industry-based studies will probably be more fruitful than those based on simple generic strategy classifications.

2. Operational strategies

The major limitation of most studies looking at HRM and strategy is that they look only at external, market business strategies. A direct connection between competitive strategy and HR systems is assumed without consideration of the inter-connection with functional strategies seen in production, operational and technology management. In the rush to show the importance of HR strategies to business strategy there has been a tendency to overlook the most obvious fact that human resource management is substantially about the operational performance of people in the work environment now and in the future and this is directly connected to work organisation inside the firm in all its forms. The implication is that contingency analysis cannot rely exclusively on business strategies (how the firm competes in external markets) but must cover a range of operational strategies (how the firm is managed to meet current and future market demands) that influence policy and performance. One area is technology. It is quite possible for a firm in a commodity market, where cost minimisation is the key to profitability, to adopt a technological strategy of high capital investment which allows, via continual processing and automation, for far fewer people but who now are more likely to have to use skills and knowledge probably working in teams, with all the policies of high commitment management. This was the strategy in the Pirelli Cable greenfield site in Aberdare (Yeandle and Clarke, 1988). The key intervening variable between business strategy and HRM in this case is the technological strategy.

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Interestingly it has been argued recently that in the case of steel minimills the technological development of continuous casting requires even low cost producers to develop labour flexibility and decentralised decision making (Ahlbrant, Frueham and Giarrantani, 1996 in Delbridge and Lowe, 1997).

The importance of manufacturing strategy is clearly illustrated by the work of Youndt, Snell, Dean and Lepek (1996). Rather than use the favoured American term 'high performance work systems' (HPWS) or the British term, 'high commitment management' (HCM) they, irritatingly, talk of 'human-capital-enhancing HR systems' and argue on the basis of a survey of 512 manufacturing plants that 'our analysis shows that the apparent main effect of human-capital-enhancing HR on performance is predominantly a function of the performance enhancements when firms link... (HR) systems with a quality manufacturing strategy' (*ibid*: 858) – what they term 'high road' strategies focusing on quality, variety or service. They contrast this with 'low road' strategies that focus on cost reduction. The importance of the study is the contrast with what they term 'administrative HR systems', akin to Arthur's 'control HR systems'. 'Our findings suggest that administrative HR systems are still very appropriate in a strategic context that emphasise reducing costs and eliminating uncontrollable behaviour' (*ibid*: 859). More interestingly they differentiate between 'delivery flexibility', meaning changing production volumes to meet customer orders, and 'scope flexibility', where production mix and handling non-standard orders is required. Administrative HR systems can aid delivery flexibility in what sounds like the age old rediscovery of the management prerogative. Most importantly they show that scope flexibility in production mixed with administrative HR, or control, systems diminishes company performance (*ibid*). This is a good example of HRM being a source of competitive disadvantage. Thus, 'scope and delivery flexibility are different conceptually, and they seem to demand very different approaches to HR management' (*ibid*). Here the intervening key factor between business strategy and choices on HR strategies is the manufacturing strategy. This applies equally to service organisations where a distinction is made between 'relationship' and 'transactional' markets, and thus marketing. Where a relationship-based customer service is provided by employees, it is likely that more sophisticated HR systems will be required. Dunlop and Weil (1996) show convincingly that the adoption of the 'modular' system of production in the US apparel industry depended on strategic change in customer relations, IT systems and operational management linked to new forms of work organisation as in HPWS.

The problem with this contingency/best fit approach, linking HR systems to operational strategies, is the huge difficulty in modelling all of the factors and estimating their interconnection, let alone coping with change. Even when looking at only one component in the HR bundle it proves problematic, as Lupton and Gowler (1969) found in the 1960s when they tried to model pay systems.

Once time and the historical development of the firm is taken into account, the search for contingent variables becomes increasingly complex. Becker, Huselid, Pickus and Spratt (1997: 41) use the resource view of strategy framework of Barney (1991) and many others to suggest that:

> organizational HPWS are highly idiosyncratic and must be tailored carefully to each firm's individual situation to achieve optimum results... In short, we believe that both the source of the HRM effect on firm performance and its inimitability reflect an 'idiosyncratic contingency'... the appropriate design and alignment of the HRM system with business priorities is highly firm specific.

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They quote with approval the study by Cappelli and Crocker-Hefter (1996) which contrasted HR systems between matched pairs of organisations in a variety of industries from baseball to retailing.

Idiosyncratic contingency is especially interesting since it is based on the twin issues of path dependency and causal ambiguity (Collis and Montgomery, 1995). We noted earlier the major problem of causality in interpreting big data sets constructed from postal questionnaires. This problem remains, but causal ambiguity refers to a related issue that has bedevilled contingency analysis, namely that the numerous, subtle and often hidden interconnections between contingent factors make the experience of every organisation unique in time and place and thus 'imperfectly imitable' – to use Barney's term. Path dependency draws attention to the emergent nature of strategy and, therefore, to the fact that what came before is a powerful force on what comes after. As Mueller argues, 'corporate prosperity typically rests in the social architecture that emerges slowly and incrementally over time, and often predates the tenure of current senior management' (1996: 777). Whether we call this culture as a shorthand term for what the firm is, or something else like 'social architecture', is not, for the moment, important. The implication of all this is that it points to uniqueness, to no one best path and to a focus on individual organisations in a given sector or industry. While there may be a limited number of policy combinations in a configuration of HR systems and the deployment of non-human resources, the precise mix can never be predicted or assured. The research problem is whether to search for general patterns among contingent variables or whether to focus on those factors which make successful firms unique. The latter points to the resource view of strategy.

Idiosyncratic contingency shows that each firm has to make choices not just on business and operational strategies but on what type of HR system is best for its purposes. Copying best practices which appear to influence firm performance can never be enough. Managers have to make choices in HRM, as in any other area of business, based on inadequate information and incomplete knowledge. It can never be sufficient to justify individual policies on race and gender equality, health and safety, trade union recognition, worker participation and even subsidised canteens, for example, on the basis of their contribution to profitability (Kessler and Purcell, 1996). Lees's (1997) notion of the 'legitimacy market' is helpful here.

3. Resource view of strategy

Frissons of excitement have been spreading through the HR academic community as the resource view of strategy gains in popularity. It appears that our hard-bitten strategy colleagues, previously oblivious to the contribution that employees can make to business performance, might now be seeing the human resource as a source of sustained competitive advantage. This might be true, but it has two very important implications for the future of the subject. First, the central tenet of the resource view of strategy is that, for sustainable competitive advantage (*ie* doing better than your competitors over long periods) the firm must be able to have resources and utilise them in ways that are rare and cannot be copied.

Resource here includes both a unique set of competencies and distinctive organisational routines. Since the sources of tangible resource strength are hard to maintain given venture capital and the speed of technical transfer, it is intangible resource strength – often, but not always, people – which give the most chance of being a source of sustained competitive advantage. Like any strategy the emphasis is on focused actions that differentiate the firm from its competitors in the same industry or sector. There may well be a minimum set of HR practices that firms have to adopt simply to compete in a given

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sector, sometimes referred to as 'table stakes', and these will vary substantially, say, between routine manufacturing, a consultancy firm and a hospital. The resource view focuses on the intangible assets, including HR, that allow the firm to win or do better than the industry average. How, then, can the universalism of best practice be squared with the view that only some resources and routines are important and valuable by being rare and imperfectly imitable? The effect of claiming that all firms will gain if they adopt the HR bundle is to turn HR, like personnel before it, back into an isolated operational matter.

Secondly, I know of no studies, or theorists, who claim that all of the organisation's employees constitute the organisation's resource strength in the sense of being or having rare attributes that the competitors find hard to match. It is the ability to identify a distinctive group of employees who, for whatever reason, constitute this intangible strength that is important. For example, Grant's analysis of Hanson from the perspective of the resource view was the ability of the corporate acquisition team to 'rigorously prune the cash and assets' (1991: 102), usually meaning around a quarter of the workforce. This type of human resource 'strength' was held by a tiny fraction of the enterprise workforce. In practice the resource view will nearly always involve the identification of a core group of employees, sometimes small in number. This will involve the development of distinctive policies and practices to maximise their performance, almost certainly involving aspects of the HCM bundle, and a simultaneous differentiation with non-core, peripheral workers who may or may not be employees of the firm. The effect is to turn highly successful organisations into exclusive societies, hard to get into, with strong cultures (Purcell, 1999). In short, the resource view leads us to predict a sharp differentiation both between firms in the marketplace, since not every firm can have a competitive advantage, and within firms between those with key competencies, knowledge and valued organisational memory and those more easily replaced or disposed of.

The resource view also gets round the problem of diffusion. One of the puzzles associated with the best practice model is why it does not spread rapidly to every firm or even within enterprises, as one subsidiary company comes to realise the benefits of HCM (Kochan and Dyer, 1994). If, however, our concern is with the identification and development of HR policies which are focused on some employees and not others, and which contribute to sustained competitive advantage by engendering rare and imperfectly imitable competence and routine, then questions of diffusion are largely irrelevant. Instead, a rich vein of research opens up, not 'mechanistically matching strategy with HRM policies and practices' (Legge, 1995: 121), but concerned with 'processual and systemic models of strategic formation... moulded by outer context factors such as the socio-economic, technical, political-legal and competitive environment... and inner factors, such as organisational culture, structure, politics/leadership, task technology and business outputs' (*ibid*). In short, we need to look at the whole range of HRM choices and processes in the context of the external and internal environment.

CONCLUSION: HRM AND THE IMPERATIVE OF CHANGE

The claim that the bundle of best practice HRM is universally applicable leads us into a utopian cul-de-sac and ignores the powerful and highly significant changes in work, employment and society visible inside organisations and in the wider community. The search for bundles of high commitment work practices is important, but so too is the search for understanding of the circumstances of where and when it is applied, why some organisations do and others do not adopt HCM, and how some firms seem to have more appropriate HR systems for their current and future needs than others. It is only one of many ways in which employees are managed, all of which must come within the bounds of HRM.

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Meanwhile, the search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others, let alone the need to model idiosyncratic and path dependent contingencies, as Boxall has argued (1992).

We need to be much more sensitive to processes of organisational change and avoid being trapped in the logic of rational choice. A fruitful line of research is analysis of how and when HR factors come into play in strategic change. This would enable us to gain a better understanding of the synergistic combinations of HR policies (internal fit) and the link between HR systems and business and operational strategies (external fit) in dynamic contexts. Wright and Snell have introduced the notion of 'sustainable fit' where an appropriate combination of HR practices is linked to the achievement of a flexible organisation (1998: 758). This attempt to apply the contingent fit approach to the management of change has important research implications.

Our concern should be less about the precise policy mix in the 'bundle' and more on how and when organisations manage the HR side of change. Brown and Eisenhart note how the managers in companies that were successful in the art of continuous change 'carefully managed the transition between the present and the future. Much like the pit stop in a car race or the baton pass in track, this transition appeared critical' (1997: 21). Kay (1996) refers to this as the ability to foster a participative 'passing game' that spurs individual organisational members to co-operate effectively as a collective. Thus, 'competitive advantage typically arises through the acquisition of organisational knowledge, the establishment of organisational routines, and the development of a co-operative ethic... powerful business architecture, like great buildings, cannot be easily reproduced because important elements cannot be written down... it is entirely dependant on knowledge of what others have done in the past and expectations of what they will do in the future' (1996: 91).

The key point about those firms which adopt HCM successfully and adapt it to their unique circumstance is that this codified knowledge, this ability in the passing game, has to be shared among core members of the organisation. If the organisation is to manage and keep on managing the transition from the current to the future state and avoid sharp punctuated change, then roles become diffuse and 'belonging' becomes important. Why does this have to cover all core employees and not just management and professional staff as in traditional systems? To answer this it is necessary to step back to ask why HCM and the transformation of work have become so important beyond simply as a response to Japanese manufacturing competition. Schoenberger (1997: 45, emphasis added) uses the concept of time:

> Now the central focus is on drastically compressing product development times... as well as speeding up the order-to-delivery cycle. Time and production has to be managed to accommodate these new imperatives: the manufacturing base has to be capable of rapidly and smoothly adjusting to continually changing product configurations and the specific demands of the moment... *Time has now become the competitive strategy of the firm*... Because of the high premium placed on speed, reliability, and quality of output in the new environment, workers must be encouraged to co-operate and to discipline themselves to the work process. For example, if things go wrong on the line, operators must have the knowledge and crucially the commitment to intervene directly and immediately.

It is in these circumstances of lean production, which apply equally in the service sector, that employees increasingly come to possess knowledge, routines and skills which management lacks and where employees need to be motivated to apply these skills through

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discretionary effort. And it is often the case that the firm's business or production strategy can only be achieved when this discretionary effort is contributed (MacDuffie, 1995). Here management dependency on the blue and white-collar workers takes the form of a risk. Just in time (replacing just in case) means being right first time. In manufacturing this can only be achieved by workers, more often than not working in quasi-self-directed teams, doing their own quality inspection, and their own rectification. In services it is seen in the impact of a customer service focus on the expanded tasks and responsibilities of 'frontline' employees, whether in hospitals, tax offices or financial institutions. The greater the dependency on workers, the greater the requirement for inclusive, trust behaviour seen in the language of teamworking and empowerment. This is where the 'balanced score card' approach is relevant focusing on stakeholders (Kaplan and Norton, 1992, 1993). As Guest (1997) has argued:

> Building on stakeholder analysis, one of the terms sometimes used in discussions about HRM is the concept of 'the balanced scorecard'. This simply implies that it is not enough to concentrate on one view of performance at the expense of the others. As in the old socio-technical systems theory, it is necessary to optimise each dimension rather than maximising one at the expense of the others. Typically, the items on the scorecard are those of importance to the financial, customer and employee constituencies.

The concept of a bundle of HR policies and practices is helpful here, not in defining a precise list of items, but in pointing to the architecture of HR processes which are translated to behaviour to suit the changing needs of the organisation. There is a familiar litany of key processes that guide policy formation to suit the precise circumstances of the firm: recruitment and selection, communication, training and learning, job design and work organisation, involvement and participation, appraisal and reward. The search is for appropriate HR architecture and processes that contribute to organisational performance in the short and medium term, and which positively contribute to the achievement of organisational flexibility or longevity. This may well involve redrawing the boundaries of the firm and thinking about the way HRM can be a source of competitive disadvantage as well as advantage. Oddly, it takes a classic textbook on strategy to make this clear.

> Organisations which successfully manage change are those which have integrated their human resource management policies with their strategies and the strategic change process... training, employee relations, compensation packages and so on are not merely operational issues for the personnel department; they are crucially concerned with the way in which employees relate to the nature and direction of the firm, and as such they can both block strategic change and also be significant facilitators of strategic change.
>
> *Johnson and Scholes, 1997: 494.*

This is less a statement of the obvious, since for years it has been ignored, but more an injunction to provide tools of analysis for both process and content in establishing the link between strategic change and HR. The focus on change will allow us to move on from the utopian cul-de-sac of 'best practice' and the chimera of best fit contingency analysis.

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