

# Human Resources Strategy

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## Assignment

Theoretical, Conceptual and Empirical Developments in the field of Strategic Human Resource Management

## Abstract

This essay will discuss the theoretical, conceptual and empirical development in the field of strategic human resource management. It is found that the idea of best-fit and best-practices has been popular in the amplification of SHRM. The best-fit school of thought argued that HR strategy will be more effective when it is appropriately integrated with its specific organizational and environmental context.

Whereas, the best practices school of thought favors universalism, arguing that all firms will be better off if they identify and adopt 'best-practice' in the way they manage people. However, in last 20 years, the resource-based view of the firm has played a pivotal role in the theoretical and conceptual developments in the field of SHRM.

The resource-based view of the firm put emphasis on the internal resources of the firm as the source of sustained competitive advantage. These all ideas have important role in the amplification of SHRM field. Further, integration of SHRM ideas and concepts in Japanese MNEs operating in USA, Russia, UK, China and Taiwan has been investigated.

## Introduction

In this era of globalization and intense competition firms are seeking ways to continuously gain competitive advantage, flexibility and be innovative. It has been argued in literature that efficient and effective human resource's policies and practices play pivotal role in gaining this competitive advantage and therefore, much emphasis is now on linking organizational strategies to human resource strategies. Strategic human resource management (SHRM) has its foundation in the US in 1980s in the work of the 'Harvard Group' (Beer *et al.*, 1984 cited in Truss and Lynda, 1994) and the 'Michigan/Columbia Group' (Fomburn *et al.*, 1984 cited in Truss and Lynda, 1994).

Before proceeding further to explore the developments in the field of SHRM, some various definitions in the literature which describe the concept of strategic human resource management are as follow:

Truss and Gratton (1994) states that SHRM is linking of HRM with strategic goals and objectives of firm to enhance business performance and to develop organizational culture that support innovation and flexibility.

Schular and Walker (1970, cited in Truss and Lynda, 1994) states that, human resource strategy is a set of processes and activities jointly shared by human resource and line managers to solve people-related business issues.

Wright and McMahan (1992, cited in Wright, 1998) defined SHRM is the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals.

In the view of above definitions, strategic human resource management therefore, takes a macro-level perspective (Truss and Lynda, 1994) and contains lot of debate in the literature for the factors influencing the development and implementation of the field of SHRM.

### Best-fit school of thought:

The best-fit school of thought argues that HR strategy will be more effective when it is appropriately integrated with its specific organizational (Horizontal fit) and environmental (Vertical fit) context (Boxall and Purcell, 2000; Wright and McMahan, 1992 cited in Wright, 1998). However, the review of literature reveals that this fit can be better achieved when certain contingency, configurationally and contextual factors are taken into account.

Marti'n-Alca'zar, Romero-Fernandez and Sa'nchez-Gardey, (2005) have grouped the contingency relationships into three generic categories; strategic, organizational and environmental variables. They pointed out that the HR practices that are effectively incorporated (fit) into business strategy would yield high organizational performance (Niniger, 1980; Fombrun *et al.*, 1984; Hax, 1985; Van de Ven and Drazin, 1985; Kerr, 1985; Slocum *et al.*, 1985; Lengnick-Hall and Lengnick-Hall, 1988; Rhodes, 1988a, 1988b; Miller, 1989; Kerr and Jackofsky, 1989; Butler *et al.*, 1991; Cappelli and Singh, 1992; Begin, 1993 cited in Marti'n-Alca'zar *et al.*, 2005).

Further, organizational variable such as size, technology, structure (Jones, 1984; Jackson *et al.*, 1989; Jackson and Schuler, 1995 cited in Marti'n-Alca'zar *et al.*, 2005), internal political relationships (Jones, 1984; Pfeffer and Cohen, 1984; Pfeffer and Langton, 1988; Pfeffer and Davis-Blake, 1987; Balkin and Bannister, 1993, Pfeffer, 1987 cited in Marti'n-Alca'zar *et al.*, 2005) and environmental variables such as competition, technological changes, macro-economics and labor (Kanter, 1983, 1989; Warner, 1984; Coates, 1987; Walker, 1988; Schuler and Walker, 1990; Becker and Gerhart, 1996; Boxall, 1998; Jackson and Schuler, cited in Marti'n-Alca'zar *et al.*, 2005), all have influence of HR on organizational strategy.

The author further indicated that behavioral theory and resources and capabilities view of the firm foster the development of contingency models. Boxall and Purcell (2000) also elaborated this argument by pointing out

that the more realistic model for practice is one in which fit with existing competitive strategy is developed in accordance with flexibility in the range of skill and behaviors, that have the potential to cope with uncertainty and different competitive scenarios in the future and therefore, HR strategy should incorporate firm's current competitive goals and objectives, by recruiting and motivating people with the sort of skills and motivations required in firm's competitive sector.

In this regard, Guest (1997 cited in Tekeuchi *et al.*, 2003) argued that effective and efficient alignment of HRM practices is able to bring out the synergistic effects on performance', he referred it "fit-as-bundle" approach. The second approach which he identified for gaining higher organizational performance through HR is what he called the "fit-as-gestalt". The underlying concept of this approach is that, sum of individual HR practices is greater than its parts, the pattern of combinations among HRM practices is additive rather multiplicative and that one key aspect of HRM practice is needed.

This argument favors, what SHRM researcher called "configuration perspective". According to configuration theory, a firm seeking high performance have to structure whole HRM practices and link each practice to all the others in a systematic manner, so that the system is internally coherent (Tekeuchi *et al.*, 2003; Marti'n-Alca'zar *et al.*, 2005). Whereas the "contextual theory" authors argued, that to better understand the complexity of the concept of SHRM, one should not only scrutinize the internal working and its effect on business performance but rather also consider the influence on the external and organizational context in which managerial decision are made (Brewster, 1999 cited Marti'n-Alca'zar *et al.*, 2005). Therefore, the underlying idea of contextual approach is to effectively examine the relationship between the SHRM system and its context (Marti'n-Alca'zar *et al.*, 2005).

In nutshell, Boxall and Purcell (2000) argued that the best-fit model is one in which HR strategy becomes more effective when it is designed to fit certain critical contingencies in the firm's specific context. They proposed that configurationally models are more capable of identifying the complex interactions involved in business strategy and toward more dynamic theory.

### **Best-Practices school of thought:**

This school of thought favors universalism, arguing that all firms will achieve high performance, if they identify and adopt 'best-practice' in the way they manage people (Boxall and Purcell, 2000). It is recognized that the concept of 'best practices' is widely acknowledged by researchers and practitioners (Delery and Doty 1996, 806 cited in Boxall and Purcell, 2000) and there is immense list of argument in the favor of best practices in the literature.

Wright, Snell and Dyer (2005) reported that the development of the idea of best-practices came in the mid-1990s when Huselid (1995 cited in Wright *et al.*, 2005) published his study demonstrating a statistically and practically significant relationship between HRM practices and corporate performance. It was also when MacDuffie's (1995 cited in Wright *et al.*, 2005) industry-focused study illustrated how particular bundles of HR practices, when aligned within an organizational strategy leads to high plant-level performance.

Since then, the focus of research is on finding relationship between HRM principles and practices and important organizational goals (Becker and Gerhart, 1996 cited in Wright *et al.*, 2005). Jeffrey Pfeffer (1998 cited in Boxall and Purcell, 2000) identified seven best practices:

- Employment security.
- Selective training.
- Self-managed team or team working.
- High pay contingent on company performance.
- Extensive training.
- Reduction of status differences.
- Sharing information.

However the best practices idea is not short of criticism as Wright *et al.* (2005) pointed out that most of these developments have come from communities of scholars focusing on their own particular countries or regions, be it the US (e.g. Arthur, 1994; Batt, 1999; Delery and Doty, 1996; Huselid *et al.*, 1997; Youndt *et al.*, 1996 cited in Wright *et al.*, 2005), the UK (e.g. Brewster, 1999; Guest, 1997; Guest *et al.*, 2003; Tyson, 1997 cited in Wright *et al.*, 2005), elsewhere in Europe (e.g. d'Arcimoles, 1997; Lahteenmaki *et al.*, 1998; Rodríguez and Ventura, 2003 cited in Wright *et al.*, 2005) or Asia (e.g. Bae and Lawler, 2000; Lee and Chee, 1996; Lee and Miller, 1999 cited in Wright *et al.*, 2005).

### **SHRM and Resource-based view of the firm:**

Another, theoretical development in strategic human resource management is its integration with the resource-based view of the firm. Although the field of SHRM does not directly emerge from resource-based view (RBV) of the firm, but to borrow concepts and theories from the broader strategy literature, the integration of the RBV of the firm into the SHRM literature was imminent (Wright *et al.*, 2001).

Therefore, two major developments have emerged over the past years. Firstly, the popularity of the RBV within the SHRM literature as a foundation for both theoretical and empirical examination (McMahan, Virick and

Wright, 1999 cited in Wright *et al.*, 2001). Secondly, the application and implications of the RBV within the strategy literature have led to an increasing convergence between the field of strategic management and SHRM (Snell, Shadar & Wright, 2001 cited in Wright *et al.*, 2001).

The RBV proposes that internal organizational resources that are valuable, rare, inimitable, and non-substitutable are a source of sustainable competitive advantage (Barney, 1991). Barney (1991) further argued that firm's resources can be imperfectly imitable for three reasons:

- Historical condition (Path dependency): As firms evolve they obtain skills, abilities and resources over the period of time that then become unique to the firm (Barney 1995 cited in Paauwe and Boselie, 2003). Paauwe and Boselie (2003) argued that this is equally true for firm's human resources who are recruited and trained over the time to be properly embedded in firm's cultural network.
- Causal ambiguity: Causal ambiguity exists when the relationship between firm's resources and competitive advantage is not understood or imperfectly understood by the firm who possess the competitive advantage and most importantly by the competitors. Paauwe and Boselie (2003) argued that the ways employee's competencies have been formed are subject to thousands of small decision and events in the firms which have contributed to specific pattern of capabilities and hence these patterns are not easily understood by the competitors.
- Social Complexity: And finally firm's resources are imperfectly imitable because they are subject to very complex social phenomena that are beyond the ability of the firms to systematically manage and influence. So when the competitive advantage is based on such complex social phenomena then the ability of other firms to imitate these resources is ceased (Barney, 1991). Paauwe and Boselie (2003) pointed out that social complexity exists in HR characteristics such teamwork, interpersonal relationships among managers, cultural traditions, and firm's networks.

Wright *et al.* (1994 cited in Wright *et al.*, 2001) separate firm's human resources and HR practices. In applying the concept of value, rareness, inimitable and non-substitutability, they argued that HR practices cannot be the source of firm's sustainable competitive advantage as HR practices can easily be copied by competitors. Rather they voted in the favor of human capital pool (a highly skilled and highly motivated workforce) as source of sustainable competitive advantage for the firm. They noted that to gain a source of competitive advantage, the human capital pool must have both high level of skill and willingness (i.e. motivation) to exhibit productive behavior.

Opposingly, Lado and Wilson (1994 cited in Wright *et al.*, 2001) argued that HR practices could provide the source of sustainable competitive advantage. Their point of view is that HR systems can be unique, causally ambiguous and synergistic in how they enhance firm competencies, and therefore could be inimitable. Snell *et al.* (1996 cited in Wright *et al.*, 2001) further justify Lado and Wilson point of view and seem it as widely accepted in current SHRM paradigm.

Boxall (cited in Wright, 1998) indicates the process through which Human Resource Advantage (HRA) can be developed. He argues that HRA consists of two components:

- Human resource capital advantage which may provide advantage when firm employs people with higher level of skill than their competitors.
- Human resource process advantage which can be gain when employees' relationships and joint problem solving process enable the firm to execute operations more quickly, efficiently and/or effectively.

Furthermore, Lepak and Snell (1999 cited in Wright *et al.*, 2001) argued that some employees groups are more instrumental to competitive advantage than others, so they are likely to be managed differently. This may help researchers to recognize that real and valid difference exists in HR practices in organizations and looking for one HR strategy may not help to identify the important differences in the types of human capital available to the firm (cf. Truss & Gratton, 1994 cited in Wright *et al.*, 2001).

Researchers also have consensus that employee behavior is an important independent component of SHRM. Unlike, the skills of human capital pool, employee behavior recognize individuals as cognitive and emotional beings who possess free will and this free will enables the employees to make decisions regarding the behavior in which they are engage (Wright *et al.*, 2001). MacDuffie (1995 cited in Wright *et al.*, 2001) argued about discretionary behavior that recognizes that within prescribed organizational roles, employees exhibit discretion that may have positive or negative impact on the firm.

Similarly, March and Simon (1958 cited in Wright *et al.*, 2001) recognizes the discretionary behavior and suggest that competitive advantage can only be gained if the members of human capital pool individually or collectively choose to engage in behavior that benefits the firm.

Based on the above discussion Wright *et al.* (2001) provide a preliminary framework that suggests core competence, dynamic capabilities, and knowledge serve as a bridge between the emphasis in the strategy literature on who provides sources of competitive advantage and the focus in the HRM literature on the process of attraction, development, motivation, and retention of people.

The authors pointed out that the people management systems construct which is actually the focus on HR field that creates value to the extent that they impact the stock, flow, and change of intellectual capital/knowledge that form the basis of core competencies. They further argued in this model that, skill concept should be looked from the broader perspective of the firm strategy and therefore, might be expanded to consider the stock of intellectual capital in the firm, embedded in both people and systems, this stock of human capital consists of human (knowledge, skills, and abilities of the people) social (the valuable relationships among people), and organizational (processes and routines within the firm).

The “behavior” element within the SHRM literature has been embedded in the flow of knowledge within the firm through its creation, transfer, and integration. The authors have indicated that, this “knowledge management” behavior becomes very important as information and knowledge play greater role in firm competitive advantage. It is through the flow of knowledge that firms increase or maintain the stock of intellectual capital.

They further propose that core competencies arises from the combination of the firms stock of knowledge (human, social, and organizational capital embedded in both people and systems) and flow of this knowledge through creation, transfer, and integration in a way that is valuable, rare, inimitable, and organized. Finally, the dynamic capability construct represents the processes that the organization has to cope with, in order to remain competitive.

It illustrates the relationship between the workforce and the core competence as it changes overtime. The authors argued that dynamic capability requires changing competencies on the part of both the organization and the people who comprise it. It is facilitated by people management systems that promote the change of both the stock and flow of knowledge within the firm that enable a firm to constantly renew its core competencies.

This frame work developed by Wright et al. (2001) is an important development in SHRM literature; however its application in real world scenario is subject to empirical testing.

SHRM in Japanese Multinational in USA, Russia, UK, China and Taiwan:

To further investigate the issue in the real world scenario, this essay will look into the matter of SHRM integration in Japanese multinational companies operating in USA, UK, Russia, China and Taiwan. This discussion is based on the empirical research conducted by Park, Mitsuhashi, Fey and Bjo”rkman (2003) on fifty two Japanese multinational corporation operating in USA and Russia, Basu and Miroshnik (1999) case study of Nisan and Toyota (Japanese automobile companies) operating in UK and Takeuchi, Wakabayashi and Chen (2003) study of 286 Japanese affiliates operating in Mainland China and Taiwan.

Japanese manufacturing organizations have made a lot of inroads in overseas production bases. The successes of their enterprises have raised interests on the system of production and organization peculiar to the Japanese business firms (Wickens, 1987; Suzuki, 1987 cited in Basu and Miroshnik, 1999). Japanese system of management is a complete philosophy of organization which can affect every part of the enterprise (Ohno, 1978; Nohara, 1985 cited in Basu and Miroshnik, 1999).



The empirical research done by the authors, mentioned above to investigate the issue of HRM strategy and firm performance in Japanese MNEs is subject to the idea of best HR practices. However, some interesting facts come into attention with the previous discussion of best-fit, best-practices and resource-based view of the firm which would be discussed below.

The Japanese MNEs have maintained their own management styles in overseas operations and despite of cultural difference, environment impact, and local labor market conditions these MNEs have adopted the best practices idea and tried to coordinate the HRM policies and practices between their overseas subsidiaries and parent headquarters.

The Japanese philosophy of *continuous improvement, zero defect, just-in-time method of delivery, team based problem solving practices (Quality circles, management by objectives, kaizen (suggestion and improvement)), long-term commitment, in-company welfare system, extensive training for skill development, performance based rewards, decentralized responsibilities, vertical information systems* are at the heart of their management strategy . And this style of management has not only proved to be successful for Japanese MNEs but it has forced other local companies to adopt Japanese styles of management for increased organizational performance.

The concept of team working through quality circles and management by objectives (MBO) are the important components to manage the human resources of the firm and bring them in align with company strategic goals to achieve higher performance. Employees through quality circle teams can put forward their suggestions, and then feedback is given to employees for their suggestion and there are also rewards for employees.

This foster employee's motivation and give them the sense of involvement. It does not only ends here, as the concept of quality circle is also important for organizational learning, as the members of quality circle comes from every department of the organization and share their knowledge and information, this helps in creating new skills and attitudes that can help to attain the company goals.

Zero defect policy refers to the fact that instead of individual parts the whole process is controlled and quality is insured through process instead of inspection. Therefore, employees are given extensive on the job and off the job training not only for specific but rather multiple operations of the firm. This refers to the fact of up skilling of employees.

The long term commitment and performance based rewards helps to ensure employee retention and continuous commitment towards the firm's objectives, this refers to the fact that the valuable and rare skills of

the employee's that have been developed over the period of time and are integrated into firm's HR systems should not be imitable and substitutable.

The above discussion points out, that these Japanese MNEs' HR systems are somewhat in coherence with the framework developed by Wright *et al.* (2001). As it is obvious from above discussion that the people management systems of Japanese overseas subsidiaries are continuously maintaining their stock of intellectual capital both embedded in people and systems of the company i.e. through extensive training, performance based rewards, concept of continuous improvement etc.

And the concept of team working through quality circles and MBO is fostering learning in Japanese organization and this valuable knowledge and skills that employees developed is retained by the policy of long-term commitment and in-company welfare system, decentralized responsibilities which all help to develop employee's behavior and attitudes for high commitment and hence increased organizational performance. It is also observed that these patterns of HR practice is quite relevant to our earlier discussion of best practices in which we refer to the seven practices identified by Jeffrey Pfeffer (1998 cited in Wright *et al.*, 2001).

## Conclusion:

The empirical research done in the field of SHRM to investigate the issue of strategic HRM and its impact on performance of Japanese MNEs is only based on finding relationship between HR practices (configurationally perspective) of the firm and their impact on organizational performance. The concepts of dynamic capabilities, core competencies, organizational learning are gaining popularity in strategic literature and as argued by Wright *et al.*, 2001 are the important source of gaining sustained competitive advantage.

Therefore, the future empirical research should incorporate these concepts to investigate the issue of integration of HR into firm's strategy. Secondly the above research also lack the evidence of how these Japanese MNEs incorporate the local market, government regulations, cultural impact that can have influence on HR strategies of these firms.

In the view of above theoretical developments in the literature it can be proposed that the firms who seek high performance and want to gain competitive edge over their competitors should device their HR policies and practices that develop skills, attitudes and behaviors of the employees in such a way that are valuable, rare, imperfectly imitable and non-substitutable in the firm's same line of business, organizational learning is an important component in developing up these characteristics and therefore, firms should develop up knowledge management systems incorporated into their HR strategy to foster organizational learning that would have positive impact on firm's performance.



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