

**Is strategic human resource management strategic?**

**- The fit between strategy and strategic human resource management**

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## **Abstract**

Through an analysis of the relationship between human resource management (HRM) systems and strategy types, predictions are made about a simultaneous horizontal and vertical fit. In a conceptual model for strategic HRM the key argument is, that the fit between firm strategy and HRM strategy is determined by (matching hypothesis) task characteristics of the strategy type and internally, consistent HRM practices. This chapter discusses design considerations within SHRM and delimits the domain of SHRM. The “one best way” versus “the many best ways” is systematically reviewed.

## **Keywords**

Strategic human resource management, strategy, vertical fit, horizontal fit, internal fit, external fit.

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#### **Introduction**

There is little disagreement about the strategic importance of human resources (HR) in organizations among human resource scholars and practitioners. During the last 10-15 years a growing number of sources have claimed, that the human resources are the companies most important assets, and that management of these resources to a larger extent will contribute to the continuous competitive advantage of firms (e.g., Wright et al., 1994; Lado & Wilson, 1994; Pfeffer, 1994; Ulrich (ed), 1998).

As a scarce strategic resource core employees and managers must be carefully allocated and continuously developed. Also, since traditional sources related to markets, financial capital, and/or scale economies is weakened by globalization, effective management of human capital may possibly be the significant determinant of firm performance (e.g., Edvinson & Malone, 1997). Human resource activities are claimed to be related to the performance of a firm. However, the specific form of this relationship is still open to debate.

The truism – presented not only by HR-professionals but increasingly also by top managers – is seldom questioned and made the object of thorough analysis. Even though the literature on human resource management (HRM) does contain several critical texts, which have emphasized the rhetoric in this domain (e.g., Peltonen, 2003; Watson, 2003; Legge, 2005), many of these

contributions have been focusing on the very general and aggregated level. The field lacks analytical rigor and could benefit from larger empirical studies providing better knowledge to managers. Consequently, whether a company's employees are always the most important assets and whether they de facto constitute the competitive advantage through their guided behavior is still an open question. If, however, this is the case, one could ask under which conditions and in which situations it is true? In addition, is this based on a more or less genuine buy-in from top management (or perhaps an argument based on more subtle interest of high performance), an outcome of the HR department winning the struggle to reinvent itself to get close to the customer and to add value to business (Holbeche, 1999), or a de facto real life experience from middle managers in general? In this respect, there is a peculiar lack of line-managers arguing for the importance and necessity of HR.

Whereas the why-question could gain from more critical reflections and considerations, the how-question has in contrast triggered myriads of suggestions. How human resource(s) (departments) can contribute to the competitive advantages of the firm has been described thoroughly since the mid-1980s (e.g., Paauwe (2004) for an overview). In particular during the last years HR has had the opportunity to prove, that it can contribute to organizational success through the development of a more strategic role, i.e. delivery of efficient services and the facilitation of organizational change. This development is based on a growing demand (and concern for) the continuous improving of organizational effectiveness and profitability. In other words, at this point in time, HR seems to be able to provide a large variety of solutions to some of the dominant questions being posed by corporate life. However, in answering the how-question a multiplicity of approaches emerge.

## HR literature

Literature within the area of HR abounds with a number of frameworks and approaches for identification and categorization of human resource management systems, i.e. relationships between HRM practices and performance. Some authors (e.g., Pfeffer, 1994) suggest that successful human resource systems have rather *universalistic* characteristics, i.e. there is a “best practice” on how to handle the company’s human resources. Others like Milgrom and Roberts (1995) claim, that the *internal consistency* of human resource systems matters for their design, i.e. it is possible to detect successful combinations (or bundles) of human resource practices. Yet others (Ostoff & Bowen, 2000) suggest that the firm’s human resource system should be *contingent* on contextual factors. Finally, Colarelli (2003) have argued for an *evolutionary* perspective on HRM. Based on a psychological and socio-cultural framework, HRM actors and activities are viewed as elements in complex ecosystems and economies.

Within these different approaches to HRM there has been a notable absence of systematic work towards uncovering regularities based on more general findings, in particular across approaches. The many different foci, conceptual understandings, and definitions have lead to a rather elaborate methodological and thematic relativism, within this domain. This development is in many respects parallel to the development of earlier related phenomenons like “human relations”. As described by Heckmann and Huneryager back in 1960: ”... for the past fifteen years there have been few terms more frequently used, more badly twisted, and more misunderstood than the term “human relations”. Likewise, within the field of HRM, testable models - based on relevant theory – have

been the exemption rather than the norm. In this light, the human resource domain lacks a more design-based and systematic approach to the strategic choices.

For an HR department to contribute optimally to organizational performance, it must be optimally organized, and the various aspects of the organizational system must be aligned. HR practices must fit with each other, with the strategy, and with the design of the organization (Mohrman & Lawler, 1999). Today, the debate is highly influenced by both the role of HRM in transforming itself and the organization and by adding value to organizational performance. Not fulfilling these criteria, HRM will have to face the consequences like other organizational units. In other words, HRM may risk to be viewed as a cost function – i.e. potentially being minimized or outsourced – and, at the same time, HRM is confronted with the opportunity to demonstrate its key position in the organization's strive for increased performance and change. Thus, there is a growing demand and concern for HRM to prove its utility in improving organizational efficiency and effectiveness – and it is in this light the function is to develop a more strategic role.

Today, it still seems to be the sources from the mid-1980s, which are used in the discussion about strategic use of human resources. The strategic perspective to the human resources first appeared in the end of the 1970s, but it is now a common view within the domain, that academics at the University of Michigan were among the first who established the notion of “strategic HRM” (Tichy et al., 1982) and Beer et al. (1984) at Harvard University developed variations of this into a broader approach. The Harvard framework consisted of six basic components (i.e., situational factors, stakeholder interests, HRM policy choices, HR outcomes, long-term consequences, and feed-back loop). In other words, both theories are based on fit considerations – the former emphasizing a more

narrow strategy-driven fit and the latter stressing a broader variety of contingency factors. HRM from the mid-1980s was centered on three overarching themes:

1. Comprehensive as opposed to patchwork direction of the human function in organizations
2. Link between operational HRM issues to firm's strategy and structure
3. Investment philosophy regard expenditures on labor and worker-embodied knowledge – an investment as opposed to an expense (Jacques, 1999; Watson, 2003)

Despite the large bulk of literature on HRM produced since the mid-1980s, there is very little solid evidence on the ways in which various types of HRM strategies are shaped in practice in organizations. The core concepts mentioned above – *comprehensiveness*, *link* and *investment philosophy* – have not materialized in the literature on strategic human resource management.

If this was the case human resource practices would be more consistent, i.e. there would be a higher degree of “horizontal fit” (Delery & Doty, 1996) for the firm to be *efficient*. Additionally, we suggest that the firm's *effectiveness* depends on whether it has aligned its human resource management practices (Baron & Kreps, 1999) with its choice of strategy and with the environment within which the firm operates, i.e. there is a “vertical fit” (Fombrun et al., 1984; Delery & Doty, 1996). Unfortunately, only few studies have focused on the demand for simultaneous horizontal and vertical fit and have only to a limited extent provided more coherent design suggestions concerning the human resource strategy. For example, Lepak and Snell (1999) have introduced the concept of human resource architecture, and Baron and Kreps (1999) have developed the human resource blueprints. Both can be seen as theoretical and empirical driven design suggestions of human resource strategies. In addition, there is a large need for conceptual clarification when it comes to

strategic aspects of human resource design – here called Strategic Human Resource Management (SHRM). SHRM is seldom defined or derived through consistent categorizations, and is described by a large variety of components and overlapping concepts, e.g. human resource systems, philosophies, policies, programs, practices, and not least processes (Schuler, 1998). Miles et al.'s (1978) suggestion of three main approaches to management (i.e., the traditional, the human relations model, and the human resources model), has provided the initial discussion of how strategy types and HRM approaches may be connected.

With these issues in mind, this chapter has two overall propositions. The first proposition concerns the relationships between the elements of HRM. We use the terminology HRM practices for this. This proposition is based on the assumption that deviations from an ideal type HRM system are likely to result in decreased efficiency if individual practices work against each other. The second proposition concerns the relationship between the configuration of HRM systems and firm strategy. Here the baseline assumption is that a configuration of a HRM system that is not properly matched to a strategy type is likely to result in lower effectiveness.

### **Level of analysis**

As Becker and Gerhart (1996), and Becker and Huselid (1998) claim, it is important for the strategic HRM literature to progress empirically as well as theoretically. However, prior empirical work in this field has emphasized several methodological issues to research in this area. Thus, we find it relevant to look into the conceptual challenges prior to empirical research.

One methodological issue refers to the appropriate level of measurement for the HRM system. Much of the prior research in the field has focused on the plant and unit level of US firms (e.g. Arthur, 1992; MacDuffy, 1995; Youndt et al., 1996). This is despite the notion that a strategic influence for HRM implies a firm level analysis involving an inimitable alignment between the HRM system and the demands of strategy implementation. The level of analysis is a critical issue in studies like this. Traditional research on HRM has been conducted through the gathering of data from individuals, often within a single firm, and the examination of relationships to individual-level performance, behavior, and attitudes in organizations. On the basis of these individual-level results, organizational level inferences about firm performance have been offered.

The question is how do individual differences translate into organizational effectiveness (Ostoff & Bowen, 2000)? Here we suggest that a meso-level approach should be applied, i.e. a simultaneous study of organization, group and individual level processes, and delineation of the processes by which the levels are related in the form of linking mechanisms. Both the micro- and the macro-level variables are needed to theoretically explain and account for the relationship between HRM practices and organizational performance. Like in many other studies, we believe that HRM practices shape the skills, attitudes, and behaviors of an organization's workforce, and in turn those skills, attitudes, and behaviors influence organizational performance. Secondly, HR practices can have a direct impact on firm performance by creating structural and operational efficiencies. Building on this notion, we explore how HR practices shape employee characteristics through organizational climate and normative contracts at the organizational level and through psychological climate and contracts at the individual level; that is, the set of HR practices fosters coordination and interaction among individuals by creating shared perceptions across individuals. Furthermore, we argue that the type of climate and the system of HR practices must be aligned with

each other and must be aligned with key organizational contextual variables, such as business strategy. Finally, we adopt a multidimensional view whereby there are multiple configurations of HR practices that drive climates and contracts, multiple climates and contracts that guide the behaviors and attitudes of the workforce, and multiple dimensions of firm performance and effectiveness (Ostoff & Bowen, 2000).

Another methodological issue is the notion of fit. There has been a substantial amount of research in individual HRM policies/practices such as pay (e.g., Gerhart et al., 1996) or teams (e.g., Banker et al., 1996) and the link to strategic outcomes (firm performance). These studies are limited in the sense that they lack the holistic perspective of the link between the HRM system and strategic outcomes.

Conceptual work suggests that test for complementarities and fit should focus on both internal (among HRM practices) and external (with other organizational policies and goals) fit (Milgrom & Roberts, 1995). However, there has mainly been found support for the internal fit hypothesis (Becker & Huselid, 1998). Thus, measurement of external fit is a challenge for the strategic HRM literature. In general, Becker and Huselid claim that “measuring the level of fit cross-sectional remains a considerable obstacle as the focus of analysis moves away from very narrowly defined jobs and industry groups” (1998, p. 66).

The current “state-of-the-art” in SHRM research seems to have a rather vague idea of the substance of strategy, manifested in a lack of explicit theory beyond the almost tautological assertion that the firm’s human resources are its most important asset (Lado & Wilson 1994). In the resource-based view of the firm (e.g. Peteraf 1993, Wernerfelt 1984) there are many different ways of exploiting a

firm's resources tied to among other things the bargaining process between resource users, the extent that resources can be substituted or imitated, and the extent that resources can be internally replicated or transferred. Since firms can chose many strategies for enhancing or creating rents based on the specifics of their situation, the resource-based literature, more than any other strategy theory, would imply that a contingent view on the fit between SHRM and strategy is appropriate. This seems to be at odds with the current practice in SHRM that seems to favor a universalistic notion of the fit between strategy and SHRM. We therefore believe that there is a contribution to be made by linking strategic human resources to an explicit strategy theory and by providing a better model of fit. We have chosen to link SHRM to Miles & Snow's (1978) theory of strategy types and will develop our notion of fit in relation to this theory. We suggest that there needs to be a fit between a bundle of HRM practices and the firm's strategy, thus suggesting that there are ideal types of HRM systems that fit with ideal types of strategies.

### *Bundles of HRM Practices*

To our knowledge the first attempt to develop a comprehensive firm-wide measure of an organization's HRM system was made by Delaney et al. (1989) followed by Huselid and Becker (1995, 1996, 1997) throughout the 1990's. In accordance with Becker and Huselid (1998), we understand the HRM system as a system that is internally consistent and coherent, and moreover, focused on solving operational problems and implementing the firm's competitive strategy.

When reviewing the literature it becomes clear that there are many different methods for measuring and valuating HRM. The absence of a widely accepted measure of the "progressive" or "high performance" HRM practices construct makes it difficult to compare findings across studies (for

example of different approaches, see Appelbaum & Batt, 1994; Cutcher-Gershenfeld, 1991; Huselid, 1995; Ichniowski et al., 1994; MacDuffy, 1995). In the literature there is broad consensus that HRM systems includes rigorous recruitment and selection procedures, performance-contingent incentive compensation systems, management development and training activities linked to the needs of business, and significant commitment to employee involvement (e.g., Arthur, 1994; Huselid, 1995; Ichniowski et al., 1994; Jackson & Schuler, 1995; MacDuffy, 1995; Milgrom & Roberts, 1995; Pfeffer, 1994). This suggests that it is theoretically appropriate to focus on a comprehensive measure of the HRM system (Becker & Huselid, 1998).

The main preference in the SHRM literature has been a unitary index that contains a set (though not always the same set) of theoretically appropriate HRM practices derived from prior work (Arthur, 1992; Ichniowski et al., 1997, Lawler et al., 1995, MacDuffy, 1995; Youndt et al., 1996). Furthermore, notion of alignment and fit are common themes in the conceptual literature (e.g., Butler et al., 1991; Cappelli & Singh, 1992; Jackson & Schuler, 1995; Milgrom & Roberts, 1995; Ulrich & Lake, 1990; Wright & MacMahan, 1992). The focus on alignment necessarily calls upon the possibilities for complementarities or synergies within an appropriately aligned system. These complementarities can be positive, where the “whole is greater than the sum of the parts,” or negative, where elements of the system conflicts internally (among HR practices) or externally (with other organizational policies and goals). Hereby destroying value rather than create value (Becker & Huselid, 1998).

As mentioned above, Huselid and Becker have done a substantial amount of research on developing a comprehensive firm-wide measure of an organization’s HRM system. They found that a high performing HRM system (termed *High-Performance Work System*) has a positive effect on firm

performance. A high performance HRM system implies designing and implementing a validated competency model linked to every element in the HR system and with aim of maximizing the overall quality of human capital throughout the organization (Becker et al., 2001). In addition, their research supports the importance of both internal and external complementarities.

Becker and Huselid (1998, Becker, Huselid and Ulrich 2001) reviewed their past research on HRM systems and ended-up presenting typologies of four HR architectures. The four HR architectures are based on a cluster analysis comparing forty characteristics describing the structure of the overall HRM strategy. Twenty-four of the characteristics regarded the *HRM System* (selection, appraisal, development, compensation, communication, etc.). The rest of the characteristics (*Implementation Alignment*) focused on other distinctiveness that would be expected to facilitate the implementation of a High-Performance Work System. The four architectures embraced the ability of HRM professionals to effectively manage different element of the HR system, the alignment between the HRM system and the larger firm strategy, the clarity and communication of the firm's mission, and the leadership style of senior management. Although there seems to be consensus about the specific HRM practices in the literature at the substantive level (not the measurement level), the notion that there are a limited number of internally consistent HRM systems is purely inductive and based on (typically) cluster analysis. We suggest that for philosophical reasons this is problematic if the philosophical ideal is one of falsification. The empirical literature typically employs cluster analyses or explorative factor analyses, and often both in combination. Neither technique can be used to test formally derived hypotheses but may be useful for pure description.

Based on our literature studies of strategic human resource management (SHRM), we have identified eight dimensions of SHRM (e.g. Becker et al., 2001). These are listed in Table 1 below

with a brief description that includes key sources for the variables. The table is largely based on empirical contributions. Here it should be noted that the tradition for scale development in HRM and SHRM appears to favor a focus on the substantive issues rather than measurement issues. Research practice does not seem to use *formally validated scales*, and different measures often refer to the same underlying constructs.

*Recruiting and selection* refers to the emphasis an organization places on the recruiting and screening of potential employees. When an organization devotes many resources to recruiting and selection (controlled for size of course), it is likely that it will run fewer risks of selecting poor performers.

*Training* refers to the amount of training offered to employees at different organizational levels. A high emphasis on training will result in better skilled and potentially more motivated employees, while less training only results in employee learning-by-doing.

The degree of *formalization* refers to the formal HR systems that firms implement, for example salary and hiring policies, and delegation of decision making. A high degree of formalization will entail less flexibility.

*Compensation* refers to the use of incentive pay by organizations, and the extent to which it is used at different organizational levels. Incentive pay means that employees are rewarded based on their results, for example through bonuses, stock options, piece rates and similar mechanisms.

*Alignment* between HR system and firm strategy refers to the extent that HR practices are aimed at influencing strategy level outcomes. If this is the case, the goal of HR practices is to affect outcomes by planning, analysis, and influence activities.

*Communication* refers to the extent that HR issues are communicated and discussed throughout the organization, and implies that the organization focuses on the traditional human relations perspective in industrial relations that emphasizes participation in decision making and extensive communication within the organization (Huselid et al., 1997; Godard & Delaney, 2000).

*Management skills* of HR professionals refer to the extent of professionalism and proactiveness in HR professionals. This means that the HR professionals are externally focused, knowledgeable in their field, and engage in influence activities and active cooperation with other functions in the firm.

*Executive leadership* style is a fuzzy concept, and the interpretation offered in e.g. Becker et al. (2001) tends to favor a uni-dimensional perspective on leadership. We offer an alternative perspective based on work by (Quinn 1984, 1988) on competing values in organizations where leadership roles are defined on two dimensions: stability-flexibility and internal-external orientation. We believe that the Quinn's theory is a more refined way of describing leadership in organizations, and, that there is a reasonable empirical support for the model at both the level of leadership and the level of the organization.

| Table 1: elements of HR Architecture Profiles |   |
|---|---|
| Dimensions                                    | Definitions   |
| <i>HR System</i>                              |   |
| Recruitment & selection                       | Refers to the resources an organization devotes to recruiting and screening potential employees (e.g. Huselid & Delaney 1996) |

|   |  |
|---|--|
| Training                                      | Refers to the resources an organization devotes to training employees at different levels (e.g., Huselid & Delaney 1996)                     |
| Degree of formalization                       | Refers to the extent that HR-practices are formalized, i.e. the use of procedures, rules etc. (e.g., Huselid & Delaney 1996)                 |
| Compensation                                  | Refers to the extent that incentive compensation is employed in the organization (e.g., Huselid & Delaney, 1996)                             |
| <i>Effectiveness &amp; Alignment</i>          |  |
| Alignment between HR system and firm strategy | Refers to the extent that HR practices are aimed at influencing strategy level outcomes (Huselid et al., 1997).                              |
| Communication                                 | Refers to the extent that HR issues are communicated and discussed throughout the organization (Huselid et al., 1997; Godard & Delaney 2000) |
| Management skills of HR professionals         | Refers to the extent of professionalism and proactiveness in HR professionals (Huselid et al., 1997)   |
| Executive leadership style                    | Refers to the leaders' emphasis on stability-flexibility and internal-external orientation (Quinn 1984, 1988)                                |

The weakness of the literature is that the HR architecture profiles are inductively generated, and even though they have some predictive validity, since they predict performance, their theoretical basis remains limited. In the following section, we attempt to provide ideal HRM architectures that fit with the task environment of the Miles and Snow (1978) strategy types. We will suggest that describing HRM systems in terms of their organic vs. mechanistic properties will be a useful way of developing ideal types for HRM systems.

### **Firm Strategy**

Strategy is a diverse field that can be divided into roughly two main strands of research: Process and content (Schendel, 1988, 1992; Rumelt et al., 1991). The former focuses primarily on formulation and implementation while the latter focuses primarily on design. Within strategy content, many models based e.g. on economics, sociology, and organization theory have been applied in research. No single model or theory has found universal acceptance as a paradigm for

strategy research, and, as noted by Rumelt et al. (1991), due to the applied and eclectic nature of strategy, it is highly unlikely that strategy will be a branch of e.g. applied economics as the dominant paradigm.

Nevertheless, despite a tolerance for diversity in the strategy content field, the focus of theoretical and applied work remains focused on how strategies contribute to improved firm performance. The core of most strategy research assumes that improved performance results from alignment of the strategy with the opportunities and threats found in the competitive environment (e.g., Andrews, 1971). What is meant by alignment or fit remains fairly vague in the strategy (Venkatraman 1989). Here we define fit in terms of *moderation* which means that our logic is based on the interaction of different exogenous and endogenous variables (Venkatraman 1989).

Here we use the typology developed by Miles and Snow (1978), and relate their strategy types to different HRM-bundles. We suggest that the competitive environment moderates the influence of strategy on performance, and refer to this phenomenon as external fit. We do not discuss the external fit further. We also suggest that the functional policies of the firm should be aligned with the strategy of the firm, and refer to this phenomenon as internal fit. We suggest that the different elements of multidimensional functional policies should be aligned with each other – as suggested above in the discussion of HRM-bundles. Therefore, we suggest two layers of internal alignment: Alignment of the different elements of HRM-policy *and* alignment between the bundle or configuration of HRM-policies and strategy.

### *Describing strategy*

Prior research based in economics has conceptualized strategy in terms of key choice variables such as R&D and marketing expenditure, and relates these to the positioning at the industry level (e.g., Caves & Ghemawat, 1992). In organization theory, there have been different attempts to conceptualize strategy and its relations to internal attributes of firms. These range from simple bivariate notions of contingency or moderation to more complex configurational schemes (e.g., Doty et al., 1993; Miller, 1992). We favor the complex interpretation of fit where firms must match bundles of variables to each other to obtain fit.

Miles and Snow (1978) proposed a strategy typology based on three strategy types, the defender, the analyzer and the prospector, and a residual category the reactor that captures companies without consistent strategic behavior. We find that this typology capture the essence of three essentially different strategic postures, and are based on a sufficiently complex underlying conceptualization of strategy. Moreover, there have been a large number of studies based on the Miles and Snow (1978) typologies, and overall, the empirical results seem to indicate some level of convergent validity (cf Doty et al., 1993). Miles and Snow (1978) do not discuss HRM in detail. However, they identify key human resource implications related to the three pure types of strategies.

*Defenders* are firms that perceive the environment as relatively stable, have a narrow product line, and concentrate on efficient operations. This type of firm seeks niches and specialization through concentration on problem-solving. Opportunistic rationalization with focus on finance and production is sought after to increase strengths. The defender is therefore a strategy type that favors high reliability as a criterion for obtaining internal consistency. Therefore the HR-bundle of the defender should aim at improving the reliability of the human resources in the firm. *Defenders* rely heavily on internally developed human resources and employees are carefully selected, placed, and

trained. Furthermore, employees are expected to stay with the company for long periods of time. Maximum involvement and skilled execution is in focus, and employees with large latent potentials are mainly hired.

*Analyzers* perceive the environment as slowly changing and are followers of change. Simultaneously they are operating in both stable and turbulent domains with corresponding foci on both efficiency concerning existing areas and innovation also in new market opportunities. Through intensive and comprehensive planning this type of firm builds selectively on strengths, although new attractive segments to apply strengths are monitored closely. *Analyzers*, here the HRM unit plays the training and maintenance role appropriate to the defender strategy by using accurate placement and appraisal devices. For innovation developments, the unit plays a more developmental role by designing flexible and enriching team structures and processes. Encourage and support self-development of abilities, skills and knowledge is in focus. The HRM unit mainly is concerned with coordinate between accurate placement and flexible team structures.

*Prospectors* perceive the environment as growing, even dynamic, and are exploiters and creators of change. For this type of firm planning is concerned with problem-finding. Being innovative and constantly looking for new opportunities frequently result in an acceptance of moderate near-term profits in the search for new segments. Prospectors aim at achieving high innovation rates and developing new market niches. Human resource units within *Prospectors* perform an entrepreneurial role, helping to identify and quickly develop crucial human resources through the rapid movement and alteration of assignments. High skill utilization is in focus. Employees are moved to match abilities, skills, and knowledge to specific tasks.

In Table 3 we present our ideal HR architecture profiles. We claim that these are internally consistent and, also fit with the strategy types. Borrowing the distinctions between organic and mechanistic from the organizational design literature, we argue that defenders should employ HR architectures that are mechanistic in their design while prospectors should employ HR architectures that are organic in their design. We claim that analyzers occupy a middle ground between the two. In order to achieve internal consistency, the different elements of the HR architecture should be characterized by being “organic” or “mechanistic”.

Table 2 presents our hypotheses concerning the fit between overall HRM system characteristics and strategy type. We propose that the overall focus of organic HR systems is to meet demands for change, skill enhancement, and growth while the overall focus of mechanistic HR systems is to meet the demands for operational results, stability and skill utilization. Table 2 illustrates our propositions concerning fit between strategy and HRM, and we argue that a small deviation from an ideal HR architecture will lead to a small misfit, i.e. a small negative performance deviation, while a large deviation will lead to a large negative performance deviation. Thus the cost of deviation increases with the size of the deviation.

| Table 2. Fit between HR architectures and strategy types |                 |                 |                   |
|--|-----------------|-----------------|-------------------|
|  | <b>Defender</b> | <b>Analyzer</b> | <b>Prospector</b> |
| <b>HR architecture</b>                                   |                 |                 |                   |
| Mechanistic  | <b>Fit</b>      | Minor misfit    | Misfit            |
| Mix of organic and mechanistic elements                  | Minor misfit    | <b>Fit</b>      | Minor misfit      |
| Organic  | Misfit          | Minor misfit    | <b>Fit</b>        |

Table 3 explores the nature of our ideal HR architectures, and outlines their profiles using the framework presented earlier in Table 1. We have two claims in this regard: (1) If the firm’s HR architecture deviates from this profile, misfits will appear. (2) If the firm chooses an HR

architecture that does not fit with its strategy, misfits will appear as depicted in Table 2. We predict that the potential misfits are greater for defenders and prospectors, since prospectors can choose very mechanistic designs and defenders can choose very organic designs. Since analyzers occupy a middle ground between organic and mechanistic, we expect that misfits will be minor both in terms of internal fit of HRM systems and in terms of the fit between HRM system and strategy.

We propose that the broad claims in Table 3 are made operational and subjected to further empirical analysis. Since the theoretical variables in the field of strategic HRM are reasonably operational, it should be a relatively easy task to test the predictions.

| Table 3: ideal HR Architecture Profiles       |  |  |   |
|---|--|--|---|
|   | HR Architecture  |  |   |
| Dimensions                                    | Defender   | Analyzer   | Prospector  |
| <i>HR System</i>                              | Mechanistic  | Mix of mechanistic and organic   | Organic   |
| Recruitment & selection                       | Defenders require standardized skills, and fewer professionals. Recruitment does not need to be as selective.                                  | Analyzers require professionals for managerial positions. Moderate selectiveness.  | Prospectors require highly skilled professionals, thus a highly selective recruiting & selection function is required                   |
| Training                                      | Defenders rely on standardized skills and narrow/specialized job descriptions.   | Analyzers require experts in managerial and professional jobs. Training should be moderate.  | Prospectors require that employees upgrade skills continuously and have high levels of expertise. High levels of training are required. |
| Degree of formalization                       | Defenders require standardized skills and work processes. HR systems emphasize formalization.  | Analyzers require experts in managerial and professional jobs. Formalization should be low for managers and professionals. High for other employees. | Prospectors employ many professionals, and personnel turnover is likely to be high, therefore formalization should be low.              |
| Compensation                                  | Jobs are well described, easy to monitor, and outcomes are predictable. The emphasis on incentive compensations should be low.                 | Most jobs are well described and easy to monitor. Managerial and professional jobs are an exception. Moderate emphasis on incentive compensation.    | Jobs are loosely described, difficult to monitor, and outcomes unpredictable. High emphasis on incentive compensation.                  |
| <i>Effectiveness &amp; Alignment</i>          |  |  |   |
| Alignment between HR system and firm strategy | N/A  | N/A  | N/A   |
| Communication                                 | Jobs and procedures are well described, and there are few exceptions to daily operations and strategic changes. Emphasis on communication low. | Moderate change to jobs and procedures, and moderate change in daily operations and strategy. Moderate emphasis on communication.                    | Jobs and procedures change frequently for, changes need to be communicated effectively to ensure effective implementation               |

|                                       |   |   |  |
|---------------------------------------|---|---|--|
| Management skills of HR professionals | Since demand for service is relatively stable, HR professionals can be reactive administrators. | Moderate change in demands for service from line managers. HR professionals should be proactive in relation to managers and professionals. The focus should be on administration for other employees. | HR professionals need to be able to adapt to changing demands for service as the needs of line managers change frequently. HR professionals should be proactive. |
| Executive leadership style            | Internal process culture. Focus on formalization and structure.                                 | Rational goal culture. Results-oriented with hard drivers, producers, and competitors as leaders.   | Developmental culture. Focus on dynamics, entrepreneurship, and creativity.  |

### **Informing the practice of Organizational Design**

With the increasing focus on the human side of the enterprise and in particular the HR effects on performance, the implications for organisational design are apparent. HR departments seem to be, if not direct implementers, then important actors in providing the apparatus (structure and processes) for the execution of strategies. In addition, the above mentioned movements towards new organizational designs in many firms provides HR departments with an outstanding opportunity to prove its “contribution”, i.e. the continuous work towards fit is often carried out by HR-people in collaboration with line managers. Whether the attempt to increase the vertical fit is a one way procedure (top-down) or two ways (more or less integrated) it is still within what normally would be considered a domain of HR competence. Concerning the former situation, top-down, by tradition formulation and implementation have been considered to be two separate things, and it is not difficult to discern the hierarchy implicit in the division - those who put the strategy into practice come after those who formulate it (Peltonen, 2003). HR-people had to implement top-managements strategic decisions. However more recent developments tend to emphasise, that strategy formulation and implementations is a two way process (Holbeche, 1999, Beardwell et al. 2004, and Paauwe, 2004). Here HR’s role is not limited to passing on information to the top management, which will then make strategic decisions. On the contrary employees are considered one of the sources of building up competitive advantages (see also the resource based view, e.g. Barney 1995). In this situation fit could be interpreted as in the area of strategic interaction (see Guest, 1997, p. 271) compared with fit as either an ideal set of practise, as bundles or as contingency. However, we also see fit as a horizontal phenomenon, i.e. as bundles of coordinated HR-practices. Empirical support can be found for the performance effect of all the different approaches to fit, but in particular the fit based on internal bundles of HR practices is well documented. The simultaneous demand for vertical as well as horizontal fit, however, leaves us with a very high level of complexity in relation

to the concept of fit. A complexity which necessitates further future theoretical clarifications and analytical requirements (see Venkatraman, 1989)

## **Conclusion**

The aim of the present chapter has been to map a larger proportion of the conceptual landscape between HRM and strategy, with the purpose of making the notion of fit more explicit both in terms of internal consistency of HRM systems, and their fit with the strategy of the firm. The end goal is to identify a better model of the contribution of HRM systems to performance based on the theory of strategy types that Miles & Snow (1978) developed. In line with the expectation of this theory, we expect the optimal design requires both designing a consistent HRM system and selecting the right one. Efficient HR comes in not one bundle but several different bundles, depending on the task environment and thereby the strategy. In our interpretation this is basically a classical best fit exercise, leading to best practices under diverging situations. By providing a more general guideline for designing HR bundles, compiled into HR-strategies, which combined with strategies, will prove competitive, we suggest an alternative to the somewhat glamorized case-studies (often without any attempt to trace the similarities and regularities that exist across companies).

The method used is a classical rationalistic top-down approach (Gratton et al. 1999) with the well known strength and weaknesses. Miles and Snow (1978 and 1984) have provided the initial suggestion on how to integrate practices - such as selection, training, reward and development - under strategy typologies, so that they complement each other. Storey (1989, p. 3) calls this: "a set of interrelated practices with in ideological and philosophical underpinning". Thus, the dominant emphasis is on vertical – rather than horizontal - integration. The strategy categories are very well documented and provide a solid frame of reference. This is in our view an important element in the exercise due to the fact, that HR domain is characterized by very limited conceptual clarity. We tend to stick only to practices and aggregate these into HR-bundles which can be "translated" into HR-strategies depending on the level systematic and conscious work with alignment (we find it an extremely important topic for further research to uncover the level of consciousness and system building in HR).

The “fixed” strategy categories are serving the role as stable elements in the build up of our model. Organizations seldom move from one predictable strategy type to another, and many larger organizations pursue several rather than single strategies (Miller, 1992). Perhaps multiple fits are possible, and the competitive pressure on corporations often is multidimensional.

It is however our hope to bring clarity and simplicity to the domain, where the demand for simple design solutions is as we perceive it – very large. On one hand, it is possible to find HR practices for which there is very limited scientific validity. What Colarelli calls “traditional practices” seems to stick to the HR department. On other hand, it is possible to detect more recent state-of-the-art HR-practices which is ignored by organizations (see Corarelli, 2003).

We need to understand why organizations use the practices that they do and under which circumstances. We need to learn why the methods recommended in the HRM literature are used so infrequently in so many organizations (Corarelli, 2003).

A key challenge for future research, we believe, is to develop valid and reliable research instruments that are applicable across industry and cultural contexts. We therefore recommend that future empirical research emphasizes measurement issues rather than substantive issues and once valid and reliable instruments exist, research should focus on the substantive issues.

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