

**“ HUMAN RESOURCE PRACTICES, ORGANIZATIONAL
OUTCOMES, EMPLOYEE OUTCOMES AND FIRM
PERFORMANCE ”**

By:

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DECLARATION

This independent study paper is my original work and has not been presented for a degree in any other University.

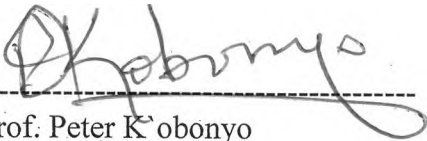


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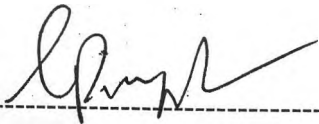
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ABSTRACT

This article explores the linkage that may exist in an organization between human resource management practices, employee outcomes, organization outcomes and the performance of organizations. Literature regarding these aspects is explored which sheds some light on some of the challenges of conducting such a study. It is concluded that though there is no set of universally accepted 'best practices' that organizations adopt, there are bundles of 'best practices' that successful firms tend to integrate in their organizational strategies. However, adoption of 'best practices' should be done in such a way that they fit into an organization, given that 'best practices' that may work for one firm may not apply in another firm because of contextual factors.

Key words

Human Resource (HR), Human Resource Management (HRM), Best Practice, Employee Outcomes, Organizational Outcomes, Firm Performance, Country Institutional Profile (CIP).

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CHAPTER 1

HUMAN RESOURCE PRACTICES

1.1 Introduction

There has been a considerable amount of empirical research on the relationship between certain human resource management practices and business performance. Pfeffer and Viega (1999) and Pfeffer (1998) provide examples of empirical research to propose that seven specific HRM practices, employment security; targeted selection; workplace teams and decentralization; high pay contingent on organizational performance; employee training; reduction of status differentials; and business information sharing with employees – collectively lead to higher revenue, profits, market value and even organizational survival rates.

Lawler (1994) posits that, for organizations to be sustainable in the medium to long term, employees must be motivated to care about the work they do, to acquire knowledge related skills and to perform the work to the best of their abilities. According to Lester (1998) rapid technological change and the growth of e-business and the Internet, which, combined with globalization, has altered the way work is performed. Ichniowski et al., (1997); Huselid et al.,(1997); MacDuffie.,(1995); Huselid (1995) have prescribed to the view that high involvement HRM practices are positively associated with such business performance measures as market value, rate of return on capital employed, revenue growth, revenue per employee, capital utilization, productivity, product and service quality.

There is no single best practice that all organizations should aspire to have. Rather, the literature under study shows that each firm has a distinctive HR system that represents core competencies required for survival and sustainability for that particular organization Cappelli and Crocker-Hefter (1996). “Best practices” in HR are subjective and transitory Fitz-enz (1993). What is best for one company may not be best for another. What was best last month may not be best for today. The concept of “best” is highly subjective and non-specific. “Best Practice” is not a set of discrete actions but rather a cohesive and holistic approach to organizational management. Knowledge and intellectual capital are becoming increasingly important if firms are to be successful in highly competitive global markets Wright et. al., (1994).

Pfeffer(1994), the main proponent of the best practices thesis. Initially identified 16 best practices. However, in his book *The Human Equation* Pfeffer (1998) the list of best practices has been reduced to seven; sharing of financial and performance information, harmonization, employment security, sophisticated selection, empowered teams, extensive training, and high compensation contingent on organizational performance.

Faced with intensive and complex competitive pressure, firms have closely examined their organizational structures, and especially how they organize employment. This change of focus to the “human side of the business” has necessitated the implementation of continuous improvement HR programs Longenecker et al., (1998). Technology and global communications make it possible to gather information instantaneously, to manage products, people and services like never before Solomon (1995). The transition from the

industrial to the information age has forced international human resource managers to use the new information technologies to search worldwide to identify and recruit global talent to address the business needs of the 21st Century. Faced with the challenge of upgrading employee skills, talents, and leadership capabilities enterprise-wide, companies are using modern technology to support broadly expanded recruitment and training processes: The processes now cover all or most employees, positions in all functions and wherever the company does business, and an escalating array of developmental activities-all defined by the human resources competencies that the company needs today and in the years ahead Nordon (1997).

Practices can be acquired through one organization modeling its practices based on practices of other organizations as a means of appearing legitimate or up-to-date. Examination of faddish nature of many HRM programs provides numerous examples of organizations implementing HRM practices in order to appear modern or professional. Quality circles are an example of a practice that was deemed to be effective in Japanese organizations and then saw tremendous growth in U.S. companies, in spite of the fact that these programs were only occasionally successful Lawler and Mohrman (1987).

Globally competitive organizations will depend on the uniqueness of their human resources and the systems for managing human resources effectively to gain competitive advantage Pfeffer (1994), Bartlett & Ghoshal (1997), Barney and Wright (1998). Human resources are not only the drivers and principal value creators of the output of the knowledge industry, but they are also the intellectual capital or the 'infrastructure

investment'. Therefore, attracting, training, retaining and motivating employees are the critical success determinants for any knowledge-based organization.

Among human resource practitioners, the term "strategic human resource management" is used generally to signal the view that Human Resource Management (HRM) practices should enhance firm performance not least in financial terms (Schulcr and Jackson, 2005). Paralleling this numerous theoreticians have argued that the human resources of the firm are potentially one of the most powerful sources of sustainable competitive advantage for organizations and have sought to demonstrate that there is a positive relationship between HRM and firm performance (Ferris, et al, 1999).

However, ever since the concept of strategic HRM was launched in the mid-1970s there has been uncertainty as to which of the many "high performance" HRM practices (Delaney et al., 1989) that have been advocated actually facilitate superior performance (Collins and Smith, 2006; Ferris, et al, 1999). Moreover, there are also those who find little or no association between HRM and performance (Guest *et al*, 2003). As a means to clarifying the issue of the impact of HRM practices on firm performance Collins and Smith (2006) propose that one differentiates two generic categories of HRM practice alternatives (Gooderham *et al*, 1999; Legge, 1995). On the one hand there are those practices that are variously referred to as calculative, hard or transaction-based practices, which emphasize tangible exchanges between the firm and the employer such as performance-related pay.

On the other hand there are those practices that are labelled as collaborative, soft or commitment-based such as employee strategy briefings. However, Collins and Smith's study is restricted to the role of the latter in relation to firm performance. As Collins and Smith rightly observe, there is a need for studies that combine both HRM practice alternatives.

The assumption underpinning the practice of HRM is that people are the most valued assets that an organization can ever have Armstrong (2006). There has been much research in the recent past that attempts to establish a positive link between HRM practices and firm performance. Ulrich (1997) has pointed out that; "HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between investments and attention to HR practices are often fuzzy, and tend to vary according to the population sampled and the measures used." (Purcell et al, 2003) have cast doubts on the validity of some of the attempts through research to make the connection.

Arthur (1990, 1992, 1994) conducted a study and collected data from 30 US Strip Mills used to assess the impact on labour efficiency and scrap rate by reference to the existence of either a high commitment strategy or a control strategy. The outcome was that, firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy.

Huselid (1995a), analyzed the responses of 968 US firms exploring the use of high performance work practices, the development of synergies between them and the

alignment of these practices with the competitive strategy. The outcome of this study was that productivity is influenced by employee motivation, financial performance, employee skills and organizational structure.

The 1998 workplace relations survey according to (Guest et al 2000a) sampled 2000 workplaces and obtained views of about 28000 employees. The outcome of the survey indicated that a strong association exists between HRM and both employee attitudes and workplace performance.

The future of work survey according to (Guest et al, 2000b), 850 private sector organizations were surveyed and interviews conducted with 610 HR professionals and 462 chief executives. The outcome of the of the survey was that a greater use of HR practices is associated with higher levels of employee commitment and contribution and in turn linked to higher levels of productivity and quality of service.

CHAPTER 2

EMPLOYEE OUTCOMES, ORGANIZATIONAL OUTCOMES AND FIRM PERFORMANCE

2.1 Employee Outcomes

There is considerable literature providing case studies and empirical evidence that self-managed workers in self-managed teams enjoy greater autonomy, flexibility and discretion. Employees have more opportunity to use their wider skills. This translates into intrinsic rewards and job satisfaction in teams outperforming traditionally supervised work groups Pfeffer (1998). According to Belcourt, (2001) research has shown that HR practices can have an impact on organizational performance in measurable ways. The best studies have established that sophisticated and integrated HRM practices have a positive effect on employee performance by increasing knowledge, skills and abilities, improving motivation, reducing shirking and increasing the retention of competent employees. These best practices have a direct and economically significant effect on a firm's financial performance. Guest (1997), noted that the distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organizations.

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2.2 Organizational Outcomes

A multi-industry and cross-sectional study by Huselid (1995b) identified that annual sales per employee are as much as \$ 100,000 higher in companies with the 'best' working practices than with the 'worst' working practices. Huselid (1995a) argued that all else being equal, the use of best practices and good internal fit (between organizational strategy and HRM systems) should lead to positive outcomes for all types of firms.

According to (Schuler and Jackson, 1997; Wright and Snell, 1991), HRM practices must complement one another to achieve positive performance. It has been suggested by (Bowen and Ostroff, 2004; Collins and Smith, 2006) that HRM practices do not directly impact on firm performance but instead contribute to the creation of organizational climates that foster superior performance.

2.3 Firm Performance

According to Kotler (2000), the firms that tend to properly analyze the environment are more likely to succeed than those that do not. On the other hand, it can be a major mistake for a firm to make an assumption that environmental conditions will not change; this is very likely to seriously harm the firm Johnson and Scholes (2000). Financial Related Practice (FRP) can be broadly defined as the explicit link of financial reward to individual, group or company performance. Such practices often involve a payment that is integrated into the basic salary. The theory, grounded in the classical Vroom (1964) VIE trinity, is that the clearer the connection identified by the worker between effort,

performance and reward, the more likely it is that the worker will work harder in order to achieve the reward.

Superior profitability is based on achieving competitiveness in the form of unique skills and resources that allow a firm to implement business strategies superior to those of their competitors. A consensus seems to have emerged amongst scholars and practitioners that the business environment has become more competitive today, than in the previous days due to the concept of globalization (Becker, B. and Gerhart, B, 1996). As a result of this, firms to enhance their competitive advantage through the human resources that they have to compete effectively in the market.

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CHAPTER 3

HUMAN RESOURCE PRACTICES, EMPLOYEE OUTCOMES, ORGANIZATIONAL OUTCOMES AND FIRM PERFORMANCE

3.1 HUMAN RESOURCE PRACTICES AND EMPLOYEE OUTCOMES

Employee turnover is a widely researched phenomenon. There have been a large number of studies (Shaw, Delery, Jenkins and Gupta 1998) and meta analysis on this subject (Morrell, Loan Clarke and Wilkinson 2004). However, there is no universally accepted account for why people choose to leave (Lee and Mitchell 1994). (Booth and Hamer 2007) found that labour turnover is related to a variety of environmental factors and organizational factors such as company culture and values, supervisory style, fair pay, corporate value, giving support to each other, trust and respect between employees, manageable workload, development and career building satisfaction and degree of job satisfaction.

Employee turnover is a function of many different psychological states, including job dissatisfaction Mobley (1977);(Tett and Meyer 1993), lack of organizational commitment (Porter, Crampion and Smith 1976), (Tett and Meyer 1993) and availability of alternative jobs McLaughlin (1991), (Bretz, Boudreau and Judge 1994). Research conducted by Chaudhuri (2007) shows that the causes of turnover in the Indian software industry are unchallenging work environments, long working hours, limited career growth, less promotional opportunities, lack of proper leadership, non attractive compensation packages, job opportunities elsewhere and poaching of talent by the competitors. Indeed,

voluntary turnover, popularly termed 'job hopping', has been a persistent problem for human resource management practitioners.

Labour market variables (Kirschenbaum and Mano-Negrin 1999), organizational and occupational employment opportunities and occupational preferences Mano-Negrin (2001) and equity (Aquino, Griffeth, Allen and Hom 1997) are known to result in voluntary turnover. Withdrawal behaviours like lateness and absenteeism are known to be precursor behaviours to voluntary turnover.

Marchington and Grugulis (2000) question whether the practices typically assumed to be 'good' are actually beneficial to workers. They argue that literature is underpinned by unitarist thinking and also that notion of 'best practice' is problematic despite its superficial attractiveness. In particular they point to weaknesses in relation to the meaning of the meaning of this version of HRM. Truss (2001) found that the informal organization played a significant role in the process and implementation of HR policies and that organizations do not always implement 'best practice' HRM even if intended.

3.2 HUMAN RESOURCE PRACTICES AND ORGANIZATIONAL OUTCOMES

Boxall and Purcell (2003) argue that there is a complex relationship between HRM and the achievement of organizational outcomes and that HR strategies are strongly influenced by national, sectoral and organizational factors. But this conclusion does not necessarily invalidate the concept of 'best practice' because basic principles of people management underpin practice and are essential to the competitiveness of business

organization. In another related study, by (Ichiniowski et al., 1995) estimated that production lines with full, innovative HRM practices are about 7% more productive than those with more traditional practices. In yet another study, in the telecommunications sector, (Ichiniowski et al., 1996), which found that an increase in the annual sales revenue positively associated with self-managed groups in customer service units; and in network operations, cost savings due to self managed teams would exceed \$ 200 million per year for the whole division.

Many organizations have managed significant increases in the productivity area by leveraging a range of strategies and technology enhancement strategies aimed at cutting costs and increasing outputs. In many organizations these efforts have been technologically and “bottom-line” driven using increased automation and robotics, business process reengineering, downsizing, shifting manufacturing operations “off shore” and outsourcing other manufacturing and service delivery functions. Many organizations are looking to improving their productivity and competitive advantage through their people (Delery and Dorty 1996).

The phenomenal growth of the Indian software industry is well documented, (Arora and Athreye 2002). It is estimated that the industry would employ 850,000 IT professionals and 1.4 million BPO personnel by 2010. The existence of English speaking technically qualified manpower, competitive billing, high productivity gains and scalability are the reasons attributed for the emergence of India as a key IT services outsourcing destination Nasscom (2006). As the demand for software professionals increased with supply

increasing marginally, wages in the software industry began to spiral. While the domestic demand increased because of the growth, the overseas demand for Indian software engineers rose out of a significant IT skills shortage across the world. All of this has meant an increase in the turnover rates in the industry. A recent survey estimated the turnover rate in software firms in India to be as high as 25 to 60 per cent (Ramani and Raghunandan 2008).

3.3 HUMAN RESOURCE PRACTICES AND FIRM PERFORMANCE

Pfeffer (1994) argues that a particular set of HR best practices can increase company profits and the impact is more pronounced when HR practices are integrated and used together. Pfeffer asserts that such a conclusion holds good for all companies and industries irrespective of their context.

Firms need to build long-term commitment to retaining their work force. This can be achieved through more rigorous recruitment and selection and greater investment by firms in training and developing their work force. Many organizations need to change their philosophy to regarding people as assets rather than costs Fruin, (2000). Employment security policies need to reflect more careful staff selection and leaner hiring. Leaner staffing can resulting a more productive work force with fewer people doing the work, increased flexibility and employees working closer to the customer. People are often happy to be more productive if they know they have a secure long-term job with a career. More importantly, firms need to take a long-term strategic view to HR

resources rather than a short-term operational cost cutting approach (Fisher and Dowling 1999).

Teams substitute peer-based for hierarchical control of work. Instead of management devoting time and energy to controlling the workforce directly, workers control themselves (Batt 1996). Peer control is frequently more effective than hierarchical supervision because, in team-based organizations, people feel more accountable and responsible for the operation and success of the enterprise, not just people in senior positions.

CHAPTER 4

SYNTHESIS OF THE LITERATURE REVIEW

There is increasing evidence supporting the notion that HR practices are more effective when combined. For example, Laursen (2000) studied 726 Danish firms with more than 50 employees and found that HR practices influence innovation performance more when applied together than as individual practices. Additionally, application of complementary HR practices is most effective in knowledge-intensive industries.

For (Meyer and Rowan 1977) the formal structures of organizations reflect institutional environments. Legitimacy can be gained through isomorphism with environmental institutions. (DiMaggio and Powell 1983) suggests three mechanisms of institutional isomorphic change: first coercive isomorphism to gain legitimacy; second, mimetic isomorphism to avoid uncertainty; third, normative isomorphism, which stems primarily from professionalism. Thus, practices are adopted not because of 'effectiveness', but because of three specific social forces (McKinlay et al., 1996). First, 'constraining' forces, which shift as practices once viewed negatively become interpreted positively and gain legitimacy. This shift in social constraints subsequently encourages firms to conform to legitimate structures and management activities. Second, 'cloning' forces, which pressurize firms to mimic the actions of leading companies in the face of uncertainty. A cloning force (associated with mimetic isomorphism), is promoted by conditions such as ambiguous performance standards, uncertain core technologies and frequent interaction between firms. Third, 'learning' forces, which are shaped through processes in

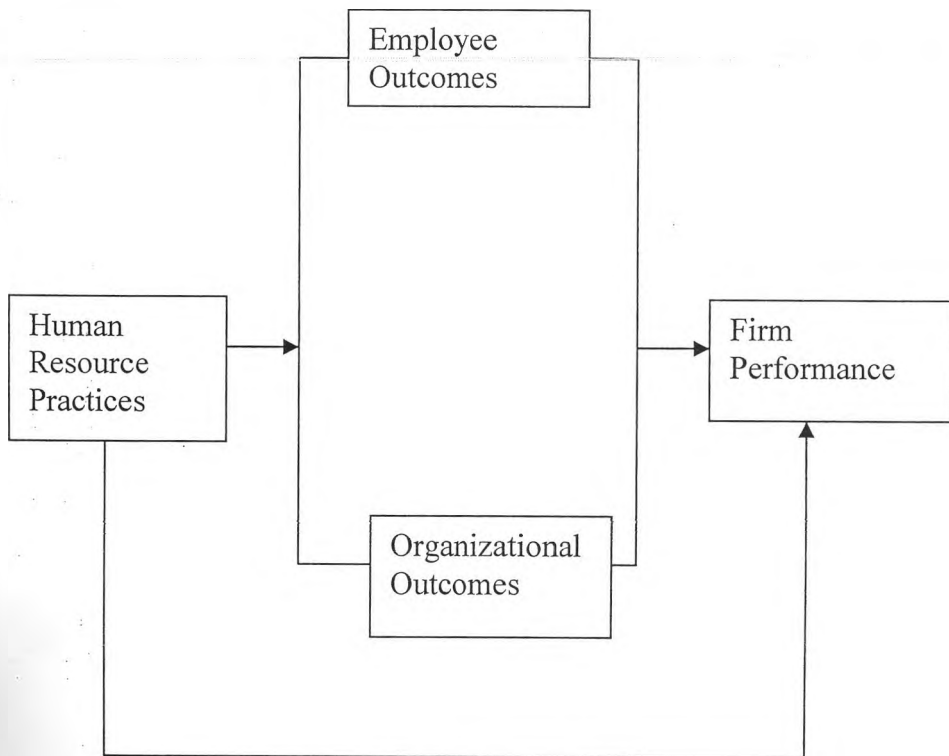
educational institutions and professional associations. Together these forces push firms to adopt institutional rules, which may then create pressures for convergence.

Irrespective of causation, is it 'best practice' that is transferred? One view of 'best practice' (in employee relations) is '... managing by behaving in a fair and reasonable manner ... 'which' ... help to add value to the business'. Yet, what does this involve? What is considered 'best practice' is often subjective and variable between practitioners, authors, locations, sectors, and time. For instance, earlier examples of what we would now call 'best practice' were subsequently repudiated. A classic would be collective bargaining in the U.K. The broad consensus is, encouragement and belief it assisted employee relations and was integral to the 'good employer' ethos pre-1979 were followed by an erosion of such views and support, Salmon (2001). Some practices are taken as 'best' on the basis of 'fashion' or presence in what were viewed as model 'successful' companies, some of which subsequently failed. Even within similar periods differences remain. For instance, several studies Storey (1992), and (Wood and Albanese 1995), were distilled by (Marchington and Wilkinson 1996) into 'clusters' of 'best practice' HRM but with only partial agreement over some practices.

4.1 CONCEPTUAL FRAMEWORK

The foregoing literature review leads to the following conceptual framework.

Figure 4.1 Conceptual Framework of the Link Between Human Resource Practices, Employee Outcomes, Organizational Outcomes and Firm Performance



As per the conceptual framework that the author has derived from the foregoing, best human resource practices are independent variables. Employee outcomes and organizational outcomes are intervening variables. The performance of an organization is a dependent variable that may be influenced by the other variables. This relationship exists in organizations, but the application of different best practices tends to have different implications on the performance of firms. This relationship has to be put under

study especially in the developing countries so as to understand the underpinning aspects to the performance of firms.

4.2 SUMMARY AND CONCLUSIONS

There is a debate on the ways that HRM may affect organizations. For the universal approach, there is a set of 'best practices' that have additive and generalizable effects on performance (Appelbaum and Batt 1994); Huselid (1995a). More cautiously, for Pfeffer (1994), other things being equal, utilization of 'best practice' can lead to competitive advantage, although with caveats – not all organizations with or without such practices will inevitably be more or less successful. Critically, some emphasize 'fit' – synergy among systems and holistic approaches. (Delery and Doty 1996) and (Dyer and Reeves 1995). Thus, horizontal integration, the achievement of a high degree of internal 'fit', is needed to gain from 'best practice' (Marchington and Wilkinson 1996).

In other words, '... individual practices must be aligned with one another and be consistent with the HR architecture if they are ultimately to have an effect on firm performance (Becker and Gerhart 1996). The implication is that gains from HRM need a more comprehensive and integrated take-up, rather than a 'pick and mix' of a few, isolated practices.

Furthermore, can 'best practice' be transferred globally? Here benchmarking is seen as useful with its implicit assumption that 'best practice' effects are not firm specific, but rather universal and transferable. Without benchmarking, firms may be at a competitive

disadvantage (Barney and Wright 1998). However, benchmarking may be seen as only 'imitation' (copying), rather than 'innovation'. Additionally, benchmarking is a start rather than a result. Benchmarking 'best practices' becomes a competitive advantage through institutionalization. According to resource-based theorists (Barney and Wright 1998); (Lado and Wilson 1994), 'unique' i.e. rare, difficult to imitate, and supported by the organization, HRM practices cannot be copied easily, hence they result in sustained competitive advantage. In sum, the paradox is that imitating 'best practices' may lead to competitive advantage, yet it is hard for these to be imitated when embedded implicitly in the organization. Such skepticism has echoes of earlier contingency-type arguments.

In contrast to ideas of universal 'best practice' transferred around the world resulting in converging systems, are contingency approaches. These seek to explain continuing HRM diversity between (and even within) countries even those grouped together as 'regions', such as Asia, Katz (1997). This may be because there is no such thing as 'best practice' in management, with even some practitioner commentators admitting the context '... is the deciding factor' Armstrong (2006). Rather, the impact of practices is dependent upon the congruence between HRM and not just an organization's strategic posture, but also contingent variables and national context (such as institutions and culture). These limit the pressure towards congruence. Impediments to, or factors that inhibit, full convergence revolve around particular and specific packages stemming from the political, economic, and social milieu.

Therefore, HRM differences could result from not just the more obvious variations, such as a country's stage of industrial and economic development or organization size, but also in operational environments and the spread, impact, and way technology is configured and used. There are alternative solutions to common pressures and problems with no single response to market competitiveness. 'Equifinality', that different collections of practices produce the same outcomes, is important indeed, management authority and autonomy to introduce practices varies and is not unilateral and unfettered globally. Critically, countries remain distinctive in cultural terms. The term 'Country Institutional Profile' (CIP) reflects this 'distance' Kostova (1999). A three dimension construct, the CIP is a country's set of: 'regulatory' i.e. existing laws and rules, 'cognitive' i.e. schemas, frames, inferential sets, etc, and normative i.e values and norms institutions. Therefore CIP and other factors, such as organizational and relational contexts, are important in successful cross-cultural transfer of practices (Schuler et al., 1993).

This kind of perspective is empirically supported. After reviewing employment practices in various countries, Kochan (1993) concluded that although new practices emerged because of the growing interdependence of national economies, the particular forms and extent of diffusion varied considerably because of differences in local history and in institutions and strategic choices of actors. Similar observations also can be found in studies of industrial relations system transformation. Thus, the manner in which HRM changes are '... introduced, mediated and handled can lead to different outcomes', so even convergence at the global level in terms of economic forces and technologies '...may result in divergence at the national and international level, as these forces are

mediated by different institutions with their own traditions and cultures' (Bamber and Landsbury 1998).

Though on the surface the universal and contingency perspectives may appear to be competing, (Youndt et al, 1996) argue that the two perspectives can be complementary. A good deal of evidence suggests that individual HR practices, as well as internally consistent systems or bundles of HR practices, can directly influence organizational performance, (Arthur, 1994; McDuffie, 1994; Osterman, 1994) moving beyond these direct HR-performance relationships, on the other hand, other evidence seem to suggest that the impact of HR practices on firm performance may be further enhanced when practices are matched with the competitive requirements inherent in a firm's strategic positioning (Cappelli and Singh, 1992; Miles and Snow, 1984). The universal approach helps researchers to document the benefits of HR across all contexts, other things remaining constant, and the contingency perspective helps the researchers to look more deeply into organizational phenomena in order to derive more situationally specific theories and prescriptions for management practices.

In brief, despite globalization, varied national HRM systems remain as distinctive political, economic, institutional, and cultural frameworks and features restrict transference and convergence in HRM. A further issue is that convergence and contingency approaches may operate at different levels of HRM systems Becker and Gerhart, (1996); Youndt et al., (1996). Evidence for both growing similarity and distinctiveness may then result from different research foci. Earlier findings indicate

tendencies for convergence studies to concentrate on micro level variables, such as structure and technology, while divergence studies targeted micro level variables, such as the behaviour of people in organizations. This seems to have some explanatory usefulness. Therefore, a key issue is to move beyond broad-brush portrayals, to disaggregate and distinguish aspects of HRM that may be transferable.

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