HRM and Performance:

What's Next?

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abstract

The last decade of empirical research on the added value of human resource management (HRM), also known as the HRM and Performance debate, demonstrates evidence that 'HRM does matter' (Huselid, 1995; Guest, Michie, Conway and Sheehan, 2003; Wright, Gardner and Moynihan, 2003). Unfortunately, the relationships are often (statistically) weak and the results ambiguous. This paper reviews and attempts to extend the theoretical and methodological issues in the HRM and performance debate. Our aim is to build an agenda for future research in this area. After a brief overview of achievements to date, we proceed with the theoretical and methodological issues related to *what constitutes HRM, what is meant by the concept of performance and what is the nature of the link between these two*. In the final section, we make a plea for research designs starting from a multidimensional concept of performance, including the perceptions of employees, and building on the premise of HRM systems as an enabling device for a whole range of strategic options. This implies a reversal of the Strategy-HRM linkage.

Introduction.

Empirical results on HRM and performance have been presented in a range of special issues of international academic journals like the *Academy of Management Journal*, the *International Journal of Human Resource Management* and the *Human Resource Management Journal*. The empirical results suggest the added value of HR interventions. However, there are still a number of unresolved issues.

In 1997 Guest argued that there was a need for (1) theory on HRM, (2) theory on performance, and (3) theory on how the two are linked (Guest, 1997). Seven years later we observe only modest progress on those three fundamental issues. Boselie, Dietz and Boon (2005) conducted an exploratory analysis and overview of the linkages between human resource management and performance in 104 empirical articles published in prominent international refereed journals between 1994 and 2003. Their findings demonstrated a deficiency in the literature regarding alternative theories on the concept of HRM, the concept of performance, and on how the two are linked. Strategic contingency theory, AMO theory[ii] and the resource-based view appear to be the most popular theories applied in the 104 articles, but in most cases it is not clear how these theories link HRM and performance. Hence, we need to turn back to Guest's (1997) plea for theoretical foundation of HRM, performance and the link between the two and ask ourselves three questions:

- What is HRM?
- What is performance?
- What is the nature of the link between HRM and performance?

Based on these three headings/questions we will be able to categorize the still unresolved issues and explore possible avenues for research in the future.

What is HRM?

Under the heading of this clear - but apparently difficult to answer - question we deal with the following issues: the lack of consensus with respect to the constituent parts of HRM; the best practice versus the best fit approach; the different fits; coverage of different employee groups; and the need to consider how HR practices are perceived.

Lack of consensus

There appears to be no consensus on the nature of HRM. Some studies focus on the effectiveness of the HR department (Teo, 2002), others focus on the value of human resources in terms of knowledge, skills and competencies (Hitt, Bierman, Shimizu and Kochhar, 2001), several studies define HRM in terms of individual practices (Batt, 2002) or systems/bundles of practices (Capelli and Neumark, 2001), and yet others acknowledge the impact of these practices or systems on both the human capital value – in terms of knowledge, skills and abilities – and on employee behaviour directly in terms of higher motivation, increased satisfaction, less absence and increases in productivity (Wright, McMahan and McWilliams, 1994). We observe that the majority of the studies define HRM in terms of HR practices or systems/bundles of practices. Boselie et al. (2005) show the enormous variety of different practices being used in the 104 analysed articles. There is not one fixed list of generally applicable HR practices or systems of practices that define or construct human resource management. In total they are able to list 26 (!) different practices, of which the top four- in order- are training and development, contingent pay and reward schemes, performance management (including appraisal) and careful recruitment and selection. These four practices can be seen to reflect the main objectives of the majority of 'strategic' HRM programmes (e.g., Batt, 2002): namely, to identify and recruit strong performers, provide them with the abilities and confidence to work effectively, monitor their progress toward the required performance targets, and reward staff well for meeting or exceeding them. Another issue is that even if we use the same concepts, the underlying meaning of the practice can be totally different. This begs the question, how can a field of academic inquiry ever manage to make progress if it is not able to come to terms with one if its central concepts? Using content analysis Boselie et al. (2005) found that among the three most often used theoretical frameworks, the AMO-framework is the only one used in more than half of all articles published *after* 2000. In contrast, for the papers using strategic contingency theory and RBV, more than half of them were published *before 2000*. So we may be witnessing the birth of at least a certain commonality around how HRM might be constituted in exploring the relationship between HRM and Performance.

Best practice vs. best fit

One of the key discussions within HRM is the distinction between the so-called best practice and the best-fit approaches. Some say there are universalistic best practices in HRM (Pfeffer, 1994), others argue that there are only best-fit practices (Wood, 1999), stating that the effect of HR practices depends on the specific (internal and external) context. It seems logical to believe in a best-fit approach in contrast to a somewhat simplistic best practice approach, but the empirical evidence still supports the best practice approach (Delery and Doty, 1996). Gerhart (2004) demonstrates a critical analysis of those who claim that some form of internal fit – the alignment of practices with each other – outperforms the lack of this type of fit. Gerhart's (2004) evaluation is very convincing in showing that the systems approaches that build on the notion of internal fit do not outperform the other approaches in which individual HR practices are not aligned.

Boxall and Purcell (2003) argue that both streams – best practice and best-fit– might be right each in their own way. Some basic principles like employee development, employee involvement and high rewards are universally successful, but the actual design of the HR practice depends to some degree on unique organizational contexts. The internal context - for example, the nature of the production system (e.g., assembly line) - might create restrictions with respect to the successful design of some HR practices (e.g., teamwork, performance related pay), but also the external context - for example, the legislation and trade union influence - might have a direct impact on the optimal HRM design. So the whole debate about universalistic best practices versus best-fit practices actually represents two sides of the same coin and both are relevant in exploring the linkage between HRM and Performance.

Different fits

Wood (1999) makes a distinction between four different 'fits': internal fit, organizational fit, strategic fit and environmental fit. Although this is in line with what many other researchers consider to be the possible range of fits in HRM research, one of the most important seems to be missing. That is, the fit between how the employee perceives HR practices and whether that perception aligns with the values and goals of the organization. That kind of fit is well known under the heading of Person-Organization fit (P-O fit), which Kristof (1996) defines as the compatibility between people and organizations that occurs when: (a) at least one entity provides what the other needs, or (b) they share similar fundamental characteristics, or (c) both. A number of authors in the field of HRM and Performance emphasize the importance of including workers' perceptions. As Van den Berg and colleagues note (1999: 302), 'an organisation may have an abundance of written policies concerning [HRM], and top management may even believe it is practised, but these policies and beliefs are meaningless until the individual perceives them as something important to her or his organisational 'well-being'. Wright and Boswell, (2002: 263) also note that in measuring HRM, it is vital to distinguish between policies and practices. The former is the organisation's stated intentions regarding its various 'employee management activities', whereas the latter are the actual, functioning, observable activities, as experienced by employees. This is yet another plea to pay more attention to workers' perceptions and the importance of person-organisation fit. This theme will recur in our final section when we discuss the importance of the strength of the HRM system (Bowen and Ostroff, 2004).

Coverage of different employee groups

If we look more closely at the conceptualization and operationalization of HR practices or systems of practices we observe little or no attention to the degree of coverage of

HRM –differentiation between employee groups and the percentage of employees covered by the practices – and the intensity of HRM in terms of, for example, daily, weekly, monthly or yearly interventions. Most prior research either uses simplistic scales focusing on the application (or lack thereof) of a specific practice (Guest et al., 2003) or some kind of scale that is supposed to capture the 'degree to which the target group has to do with' a specific practice (Huselid, 1995).

The early empirical studies on HRM mainly used the input of single respondents, in most cases the input from HR managers (Huselid, 1995). Gerhart et al. (2000) demonstrate the low inter-rater reliability between employees, line managers and HR managers. This is an interesting and highly relevant notion, but at the same time difficult to solve since these empirical results demonstrate fundamental differences between employee groups within an organization. These results suggest that different employee groups have fundamentally different priorities and needs, something that should be taken into account in future research. Lepak and Snell (2002) argue that HR differentiation towards specific employee groups is necessary for overall effectiveness. The classification of employee groups within an organization depends on factors like the nature of their jobs (e.g., production, technical support, administration, management), their professional backgrounds (e.g., level of education, degree of professionalization of the occupation) and needs and wants of individuals (e.g., degree of employment security, need for challenging tasks).

Intended vs. perceived practices

To make life even more complicated Wright and Nishii (2004) build a strong argument to make a clear distinction between intended HR practices (those designed on a strategic level), actual – or implemented – HR practices (those implemented by for example the direct supervisor), and perceived HR practices (those perceived by the employees). The majority of prior research on HRM and performance appears to focus on intended HR practices, mainly designed at the strategic level of the organization. Little is known about the actual enactment or implementation of HR practices and employees' perception of them.

What is Performance?

In this section we pay attention to the variety of performance indicators used in empirical research, the distinction between shareholder and stakeholder approaches, and the kind of implication it has for our understanding of the concept of performance.

Measuring performance

The performance outcomes of HRM can be captured in a variety of ways. We draw a distinction, adapted from Dyer and Reeves (1995), between:

1. Financial outcomes (e.g., profits; sales; market share; Tobin's q; GRATE)
2. Organisational outcomes (e.g., output measures such as productivity; quality; efficiencies)
3. HR-related outcomes (e.g., attitudinal and behavioural impacts among employees, such as satisfaction, commitment, and intention to quit)

Based on the overview by Boselie et al. (2005) we can conclude that financial measures are represented in half of all articles (104) included in their analysis. Profit is the most common followed by various measures for sales. Actually, this is quite problematic as financial indicators are being influenced by a whole range of factors (both internal and external), which have nothing to do with employees and their related skills or human capital. As already noted by Kanfer (1994) and Guest (1997) the distance between some of the performance indicators (e.g., profits, market value) and HR interventions is simply too large and potentially subject to other business interventions (e.g., research and development activities, marketing strategies). For example, having smart policies for managing working capital can increase earnings substantially, but have nothing to do with the proclaimed effect of HR practices (apart from apparently having selected the right treasury manager). The use of these kind of indicators becomes even more serious if we take a closer look at an analysis carried out by Wright et al. (in press) as summarized by Wright and Haggerty (2005). Their literature review identified 67 empirical studies, which analyzed the relationship between HR practices and performance. By far the majority of studies used a design labelled post-predictive because "……. it measures HR practices after the performance period, resulting in those practices actually predicting *past* performance" (Wright and Haggerty, 2005:8). Only a few studies explored the effect of HR practices on performance in the correct way by assessing HR practices at one point in time and relating them to *subsequent* performance. This simply means that the majority of studies have ignored a very basic rule for demonstrating causal relationships (Wright and Haggerty, 2005).

Shareholder vs. stakeholder approach to performance

The use of financial indicators emphasizes a shareholders' approach to the concept of performance, emphasizing that HR practices and systems contribute a sustained competitive advantage through enhancing skills and human capital. This assumes that organizations can maintain or create sustained competitive advantage through unique/rare, scarce, inimitable, and valuable internal resources (Barney, 1991). Human resources are a powerful potential internal resource that fits this general resource based view idea (Paauwe, 1994; Wright et al., 1994; Boxall and Purcell, 2003). The next step in the theory is that employees or human resources are manageable (manoeuvrable) and developmental. In other words, HR practices can (a) increase the value of the human capital pool through development (e.g., skills training, general training, job rotation, coaching) and (b) influence employee behaviour in the desired direction. The search for the Holy Grail in HRM is the search for those 'best practices' or 'best-fit practices' that ultimately result in sustained competitive advantage of the organization. This can only take place if employees are willing to stay within the organization. Thus, employee commitment in terms of willingness to stay with the firm and willingness to put in extra effort are very important in this context. This is probably why research in the area of HRM and performance is becoming more interested in creating high commitment work environments through HR practices or high involvement – high performance work practices (HIWP's and HPWP's). The high involvement – high performance work practices perspective (See also AMO-model) can thus be seen as an extension of the resource based view.

The aforementioned also implies that we have to look for more proximal instead of distal indicators of performance. Both organisational outcomes and HR related outcomes can be considered more proximal and thus more suited towards measuring performance. However, in this shareholders' approach the organisational and HR related outcomes are still considered to be a means to an end, i.e., contributing to bottom-line performance of the firm. Such a financial meaning can be criticized for being "too limited" (Truss, 2001: 1123).

The stakeholders' approach offers a different perspective by emphasizing the objectives of other constituencies with an interest in HRM practices and subsequent performance of an organization. This approach can be traced back to the seminal writings of Beer et al. (1984). More recently we encounter full support for this approach by, amongst others, Boxall and Purcell, (2003: 13), who define three important goals of HRM, among which social legitimacy aimed at bringing about employment citizenship, and Paauwe (2004). The latter argues that the survival of an organization not only depends on financial competitiveness, but also on its ability to legitimize its existence towards society and relevant stakeholders of the organization (e.g., employees, customers, trade unions, local government). *Legitimacy* is an important concept for sustainability on an organizational level, but also the organization's role towards the individual employee and his or her moral values are important: the concept of *fairness*. If the relationship between the employer and the individual employee is out of balance - for example, in the case of increased performance pressures without fair pay - employees might feel they are being exploited, resulting in low commitment levels towards the organization (Paauwe, 2004).

Performance as a multidimensional concept

Using a stakeholders' perspective implies that authors (Truss, 2001; Guest and Peccei, 1994) are in favour of using multiple measures of performance in order to do justice to the multiple goals of HRM and to the different parties involved, both inside and outside the firm. So, on the one hand we have the more strategic aspect of performance (based on economic rationality), which emphasizes outcomes such as labour productivity, innovation, quality, efficiency gains and flexibility (Boselie et al., 2005) and on the other hand the more societal aspect of performance (based on relational or normative rationality) emphasizing legitimacy and fairness (Paauwe, 2004). The latter two can be operationalized through indicators like OCB, commitment, trust, perceived security, and perceived fairness.

What is the nature of the relationship between HRM and performance?

The most crucial part in our overview of issues relating to the HRM and performance debate is of course the linkage between the two, here we concentrate on the following topics: the nature of the linkage, the relevance and non-relevance of strategy, the importance of the institutional context and arising conflicting demands, the need for multi-level analysis, and how to cope with reverse causality.

The nature of the linkage

Wright and Gardner (2003) question how many boxes should be taken into account when studying the HRM - performance linkage. Becker, Huselid, Pickus and Spratt's (1997) model incorporates 7 boxes, starting with ‘business and strategic initiatives’ and finishing with ‘market value’. In their model the design of the HRM system is derived from the overall business strategy (See Figure 1).

- INSERT FIGURE 1 ABOUT HERE -

Guest’s (1997) model has 6 boxes, starting with a Porter-like strategy typology – distinguishing differentiation/innovation, focus/quality and cost reduction oriented HRM strategies – and ending with the financial outcomes return on investment (ROI) and profits. Again, the HR practices are derived from the overall strategy (See Figure 2).

- INSERT FIGURE 2 ABOUT HERE -

Appelbaum et al.’s (2000) AMO-model links 3 boxes. The first box covers high performance work systems and comprises: (1) ability/skills (e.g., formal and informal training, education), (2) motivation/incentives (e.g., employment security, information sharing, internal promotion opportunities, fair payment, PRP) and (3) opportunity to participate (e.g., autonomy, team membership, communication). The second box consists of effective discretionary effort and the final box reflects the plant performance (e.g., quality and throughput time, labour cost per unit of output, operating profit). See Figure 3 for a visual representation of their model.

- INSERT FIGURE 3 ABOUT HERE -

To study the effects of HR interventions, either multiple individual HR practices or systems/bundles of practices, it is preferable to use outcome variables that are closely linked to these interventions, for example: attitudinal outcomes (e.g., employee satisfaction, motivation, commitment, trust), behavioural outcome (e.g., employee turnover, absence), productivity (output per unit effort), and quality of services or products.

As stated before, there is little or no convincing empirical evidence that coherent and consistent systems or bundles automatically lead to higher performance (Gerhart, 2004). This theoretical claim is built on the notion of internal or horizontal 'fit'. But there is another proposition that affects the HRM - performance relationship, at least in theory: the notion of external or vertical/strategic 'fit'. The underlying idea is that matching the overall company strategy with the HR strategy or system will result in increased performance. In this respect it is striking that the framework by Appelbaum et al. (2000), being the most commonly used and depicted above, does not take strategy as a starting point, whereas the other two do so. So it is worthwhile to take a closer look at the (non)relevance of including strategy in the chain of linkages

The (non) relevance of strategy

Many authors and popular textbooks in HRM mention the importance of the link between corporate strategy and HRM. Unfortunately, there is no convincing empirical evidence for this proposition (Purcell, 2004). Huselid (1995), for example, does not find any empirical evidence for increased performance when aligning the overall company strategy with the HR system of a specific organization. There are several plausible explanations for this lack of evidence of the presumed necessary strategic fit.

*First***,** strategy is often defined in a rather old-fashioned and relatively simplistic Porter-like manner, such as differentiation/innovation, focus/quality and cost reduction. Organizational reality is much more complicated and not easy to capture in a simple ‘three-piece suit’. The Porter-like definitions of the 1980s are rather static and do not take into account the possibility of hybrid strategies or combinations of strategies that companies might use, serving different markets at the same time. For this reason Purcell (2004) argues that instead of trying to define a firm’s strategy in terms of differentiation, focus or cost reduction it is much more interesting to try and determine "…how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how to organise itself to implement that strategy (Grant, 2002: 13)". Incidentally, this is a more up to date definition of what strategic management nowadays entails/encompasses (see Grant, 2005:19).

Second, both Gerhart (2004) and Purcell (2004) underline the complexity of management research in large companies, in particular multinational companies (MNC’s). Often, these large companies are conglomerations of strategic business units, each serving its own markets, customers and products/services. Therefore, Gerhart (2004) states that there are fewer reliability problems with analysis at the plant or unit level.

Third, there is no convincing theory or strong empirical evidence on the possible time-lag between a change in strategy, any subsequent HR intervention and performance. The few studies on HRM and performance that take a longitudinal perspective (Paauwe, 1989; d'Arcimoles, 1997; Guest et al., 2003), suggest that the majority of HR interventions have a long term effect on performance, sometimes taking up to two or three years before generating effects. Some HRM practices (e.g., individual performance related pay) might have a direct, short-term effect on performance (e.g., productivity), but most other practices (e.g., training and development, participation, teamwork, decentralization) probably have little effect in the short-run or (worst case scenario) fail to have any effect. Wright, Dyer and Takla (1999) asked 70 HR managers to assume that a major strategic change necessitated a significant overhaul of their firm's HRM systems and were asked to estimate the time it would take to design HR systems for delivery and implementation (Wright and Haggerty, 2005). Their answers were in the range of nine to ten months for the design and an additional ten to twelve months for the delivery, and then we still need to add further months before the changed HR systems start to affect subsequent performance.

Fourth, a whole range of factors other than strategy influence subsequent HRM strategy. Based on an overview of the strategic management literature and its relevance for the HRM/Performance relationship, Paauwe (2004) refers to the following: the *role of the entrepreneur,* often also the founder and owner with his or her preferences for HRM policies and practices; *difference in cognitive processes* of the participants involved in the strategy making process, which can give rise to different mental maps and different choices (see also Purcell, 2004); *power relationships and the kind of resources* being controlled by the actors involved, which can give rise to non-strategic choices in HRM policies and practices; *culture and ideologies* of the actors involved, which will also affect the kind of choices in HRM; and, finally *environmental and institutional forces*, stemming from trade unions and tripartite or bipartite consultative bodies (government, trade unions, employers' federations), which can have a large impact upon an organization's HRM strategy (see below).

Because of this, questions arise about the supposedly dominant role of corporate strategy in defining subsequent HRM strategy. We cannot define strategy with a specific meaning, the field of strategic management itself has shifted to more internal organisational and implementation issues, empirical evidence is lacking and other factors also play a significant role. So, in the final section of this paper, we downplay the influence of corporate or business strategy on HRM strategy, and instead make a strong plea for regarding HRM policies and practices as an enabler for a whole range of strategic options (Paauwe, 2004: 99).

Institutional embeddedness and conflicting demands

Paauwe and Boselie (2003) argue that as organizations are embedded in a wider institutional context this plays a role in shaping HRM practices and policies. Institutional mechanisms (e.g., legislation with respect to conditions of employment, collective bargaining agreements, employment security, trade union influence, employee representation) shape employment relationships and HR decision making in organizations. Paauwe (2004), for example, argues that most of Pfeffer's (1994) best practices (e.g., high wages, employment security, employee participation) are institutionalized in a country like the Netherlands. Most of these best practices are formalized and institutionalized through collective bargaining agreements. Some industries, for example, prescribe a minimum amount to be spent on training by every organization each year, defined in terms of a fixed percentage of the total labour costs. This formalization might also have an effect on employees' perception of these institutionalized practices. Pension schemes, for example, are collectively arranged in the Netherlands, mainly on industry level. Pension schemes are probably not considered to be employee benefits and best practices in the Dutch context, as this would be in a country like the USA. Another example is the best practice labelled wage compression. The typical Dutch egalitarian culture (e.g., relatively low power distance, aim for marginal differences between population groups in terms of prosperity) is reflected in collective wage compression through a strong progressive tax system in which employees with high incomes pay relatively more tax than those with lower incomes.

Paauwe (2004) acknowledges institutional differences at both a country level, for example the US versus the Netherlands, and at an industry level, for example traditional branches of industry such as the metal industry and the construction building industry versus emerging branches of industry such as the ICT industry. Institutional mechanisms (mimetic, normative and/or coercive) affect the relationship between HRM and performance and should therefore be taken into account in future research (Paauwe and Boselie, 2003). Moreover, they also draw our attention to the possibility of conflicting demands. HRM theorisation is dominated by a unitarist perspective, but starting from a more institutional perspective our eyes are opened to conflicting demands between professionals, managers, and different occupational groupings that are represented by their interest groups outside the organisation (e.g., professional associations, trade unions, etc). Also the practices themselves might give rise to conflicting outcomes in terms of increased productivity, which managers will appreciate, and increased levels of stress, which workers will probably dislike. Labour intensification through increased employee participation, decentralization, and emphasis on performance management (practices that can be seen as high performance work practices) might create competitive advantage in terms of financial performance, but the individual worker might experience increased levels of stress and anxiety (Legge, 1995). We have to take into account conflicting HR-outcomes in future research on HRM and performance.

Multi-level analysis

Prior research on HRM and performance has been mainly focused on organizational level analysis. Wright and Boswell (2002) stress the importance of blending research on the individual employee level (typical OB studies) with research at the organizational level (typical SHRM studies). Multi-level theories seek to explain simultaneous variance at multiple levels of analysis (Bowen and Ostroff, 2004). Multilevel analysis is simply inevitable when looking at the sequence of boxes that reflect the HRM and performance linkage (Guest, 1997; Becker et al, 1997; Appelbaum et al, 2000). The boxes in the existing conceptual models implicitly reflect analyses at different levels of the organization. If we want to know more about, for example, intended HR practices we have to look at the job or employee group level, according to Wright and Nishii (2004), while if we want to know more about how these practices are perceived by employees we are in need of data at the individual employee level. Employee behaviour (e.g., employee turnover, absence) and organizational performance (e.g., productivity, quality) can be determined at employee group level in some cases and at plant unit level, while financial performance indicators are probably exclusively available at plant or company level.

Reverse causality

Paauwe and Richardson (1997) observe the risk of overlooking the possibility of reverse causality in linking HRM and performance. The most obvious form of reverse causality can be illustrated by the following examples. First, organizations with high profits might reveal a higher willingness to invest in HRM (e.g., profit sharing schemes, training and development) than those that are less successful financially. Second, in times of national or regional economic crisis organizations might have a tendency to recruit less - or in some cases no - new employees and restrict, for example, training and development expenditures. The cross-sectional nature of the majority of research on HRM and performance makes it impossible to rule out these types of reverse causality. But there are other potential forms of reverse causality (Den Hartog, Boselie and Paauwe, 2004). High firm performance outcomes (e.g., high profits, market growth) might have a positive effect on employee satisfaction and commitment. Most people enjoy being part of ‘a winning team’ and high firm performance also signals organizational health and thus employment security. In a longitudinal study Schneider, Hanges, Smith and Salvaggio (2003), for example, find that profitability is more likely to cause job satisfaction than job satisfaction is to cause profitability. Longitudinal research is important for determining the real effects of HRM interventions on performance.

Challenges for future research

A number of conclusions can be drawn from this overview of research issues. Related to the concept of HRM we see convergence arising around AMO theory and the associated set of HR practices. The discussion on best practice versus best fit is an artificial one and is highly dependent on our own perspective at the 'surface (context specific)' or at the 'underpinning (generic)' level (Boxall and Purcell, 2003:69). The range of fits analysed in HRM-research needs to be supplemented by the Person-Organization fit in order to include perceptions of workers and to be able to differentiate between employee groups. In measuring performance there should be a clearer focus on more proximal outcomes and research design should allow for the analysis of HR-practices and outcomes in the right temporal order (causes should precede effects). Just defining performance in its contribution to bottom-line financial performance does not do justice to the various actors (both inside and outside the organization) involved in either the shaping of HRM practices or affected by it. It is better to opt for a stakeholders' approach, which also implies opting for a multi-dimensional concept of performance. Along with corporate or business strategy, a whole range of other factors play a role in shaping the relationship between HRM and performance, among which the institutional context is critical. Finally, we have emphasized the need for multi-level analysis and that more attention should be paid to the possibility of reverse causality.

So, in the process of discussing a whole range of issues we have made a number of choices, which we think are highly relevant. However, is that enough? Does that justify the title ‘HRM: What’s next’? Will it take the field forward or is more needed? Below, we point out two (highly interrelated) topics that need further exploration.

1. HRM as an enabling device for a whole range of strategic options (critical goals): The Balanced HR perspective

Boxall and Purcell (2003: 7) build a framework for goal-setting and evaluation in HRM and start by “positing two broad goals for business firms”: (1) viability with adequate returns to shareholders and (2) sustained competitive advantage or consistent and superior profitability, the latter representing an ultimate goal beyond the (first) survival goal. In their model these ultimate business goals can be achieved by meeting critical HR goals (increased labour productivity, organisational flexibility, and social legitimacy) and critical non-HR goals (e.g. sales, market share). In previous analysis of HRM and performance most attention has been paid to the cost-effectiveness element as the ultimate HR goal, specifically ‘financial performance outcomes’ (Boselie et al., 2005). We are in need for a more balanced perspective (e.g. Deephouse, 1999), taking into account both the cost-effectiveness HR goal (represented by labour productivity and product/service quality), the organisational flexibility urgency, and the social legitimacy dimension. In a longitudinal study of commercial banks Deephouse (1999) finds empirical support for *strategic balance theory*, which states that moderately differentiated firms – with a balance between an institutional/legitimate focus and a market focus –

have higher performance than either highly conforming (emphasis on the institutional/legitimate dimension) or highly differentiated firms (emphasis on the market/economic dimension). *Strategic balance theory* acknowledges the relevance of both market competition, represented by labour productivity and flexibility in the framework of Boxall and Purcell (2003), and social legitimacy for firms seeking competitive advantage. Until now little attention has been paid to the two critical HR goals of flexibility and legitimacy. These two might turn out to be important for a more realist perspective in future HR research.

First, based on the increased dynamics of the market place and the occurrence of organizational change within companies as the new status quo, the goals of strategic HRM systems (should) also encompass flexibility (Boxall and Purcell, 2003) and agility (Dyer and Shafer, 1999). Dominated by both resource based and knowledge based views of the firm, researchers in the field of strategic management increasingly emphasize topics like absorptive capacity, knowledge management and the need for organisations being able at the same time to respond to issues of exploitation and exploration. In fact, the latest trend in the range of popular work systems (after ‘lean and mean’, and ‘high performance - high involvement’) seems to be the creation of the ‘agile’ organization. Agility is described as focussing on customer rather than market needs, mass customization rather than mass or lean production (Sharp et al., 1999). Agility entails more than just the production system. It is a holistic approach incorporating technical (the operational system as emphasized by Boxall, 2004) information and human resource considerations. In essence, an agile organisation (see Dyer and Shafer, 1999) implies a very fast and efficient adaptive learning organisation, encouraging multi-skilling, empowerment and reconfigurable teams and work designs. Under such a system, HRM practices focus particularly on employee development, the encouragement of learning and knowledge management. So, if we have managed to create a workforce which is eager to learn, displays a willingness to change, is adaptive, flexible, etc., then we have developed through our HRM systems the kind of knowledge, skills and abilities upon which we can realize a whole range of strategic options (Paauwe, 2004). Cost effectiveness (or labour productivity) and organisational flexibility (or agility) mainly represent the employer's perspective and do not fully take into account the employee's perspective and the societal dimension. Therefore, the third critical HR goal in Boxall and Purcell's (2003) basic framework is equally important for this proposed 'balanced HR perspective': social legitimacy. This brings us to the second issue.

Second, creating a cost-effective and agile organisation is possible once we recognise that employees should be treated fairly. The overall HRM system should be based upon added value (cost effectiveness and flexibility) and moral values (social legitimacy and fairness towards individuals), both economic and relational rationality (Deephouse, 1999). The latter refers to establishing sustainable and trustworthy relationships with both internal and external stakeholders, based on criteria of fairness and legitimacy (Paauwe, 2004). Failing to meet objectives of legitimacy and fairness can lead to perceived injustice by those involved (e.g. employees, managers, works council representatives, trade union officers) and affect both employee behaviour and social relations within an organisation. "People care deeply about being treated fairly…the evidence suggests that people can and do distinguish their own absolute outcomes for two key dimensions of justice: distributive, or how they did relative to others; and procedural, the process by which the outcome was achieved (Baron and Kreps, 1999: 106).” The meta-analytical review of organizational justice by Colquitt, Conlon, Wesson, Porter and Ng (2001) shows unique positive effects of perceived justice (both procedural and distributive) on job satisfaction, organizational commitment, employee trust and OCB underlining the relevance of fairness and legitimacy in organizations. Meeting the criteria of relational rationality in essence implies that managers need to ‘treat their people well’.

So, the signals communicated through HR practices by line managers must be clear /distinct, consistent, and uniformly applied. Employees must not discern a lack of clarity, a lack of consistency and a lack of consensus. This brings us to the importance of the strength of the HRM system (Bowen and Ostroff, 2004).

2. The strength of the HRM system

Bowen and Ostroff (2004) are extremely interested in the relationship between HRM and performance, and while accepting the evidence that HRM can indeed make a difference they still wonder through which process this occurs. In order to answer that question they develop ‘a framework for understanding how HRM practices as a system can contribute to firm performance by motivating employees to adopt desired attitudes and behaviours that, in the collective, help achieve the organization’s strategic goals’ (Bowen and Ostroff, 2004: 204). A crucial linkage in the relationship between HRM and performance is their focus on organisational climate, which they define as ‘a shared perception of what the organization is like in terms of practices, policies and procedures, routines and rewards, what is important and what behaviours are expected and rewarded (Bowen and Ostroff, 2004: 205; referring to Jones and James, 1979 and Schneider, 2000). The concept helps them to develop a higher order social structure perspective on the HRM – firm performance relationship, which Ferris et al. (1998) call *social context theory* views of the relationship between HRM and Performance. They apply this kind of theorizing to HRM by emphasizing the importance of processes as well as content of HRM.

By process, Bowen and Ostroff refer to 'how the HRM system can be designed and administered effectively by defining metafeatures of an overall HRM system that can create strong situations in the form of shared meaning about the content that might ultimately lead to organisational performance' (2004:206). These metafeatures ensure that unambiguous messages are sent to employees that result in a shared construction of the meaning of the situation. So they concentrate on understanding what features of the HRM process can lead employees to appropriately interpret and respond to the information conveyed in HRM practices. In this way they apply the concept of strong situations to the so-called strength of the HRM system, which is a linking mechanism that builds shared, collective perceptions, attitudes and behaviours among employees. Characteristics like distinctiveness, consistency and consensus are key process features. Distinctiveness is built by HR practices, messages, signals that display a large degree of visibility, understandability, legitimacy and relevance. Here we see the connection with the importance of values alignment and Person-Organisation fit. Individual employees must perceive the situation as relevant to their own goals, which should be fostered in such a way that they can be aligned to those of the organization. Of course, a strong climate or strong HRM system might run the risk of being rigid. However, as Bowen and Ostroff (2004:215) correctly remark, if the process of HRM emphasises a strong climate including elements that focus on flexibility, innovation and willingness to change, then employees will sense and share the idea that adaptability and agility is expected of them.

Final remarks

We are convinced that progress in understanding the relationship between HRM and performance can be achieved by taking into account all the points made so far. However, that kind of progress will be piece-meal. Consequently, real progress can only be made by looking at the broader picture of developments in the field of strategic management, the speed of change within companies and what this implies for managing people and stakeholders. How can we achieve flexibility, agility and what is needed in terms of value alignment at the various levels of analysis? We need to look beyond practices such as staffing and the management of human resource flows. These are the kinds of hygiene factors, which if not delivered cost-effectively will lead to underperformance of the organisation. A real contribution to performance (in its multidimensional meaning) will only happen once we approach HRM from a more holistic and balanced perspective, including part of the organizational climate and culture, aimed at bringing about the alignment between individual values, corporate values and societal values. This will be a unique blending for each organization, which is difficult to grasp by outsiders (including competitors) and thus contributes to sustained competitive advantage[iii].

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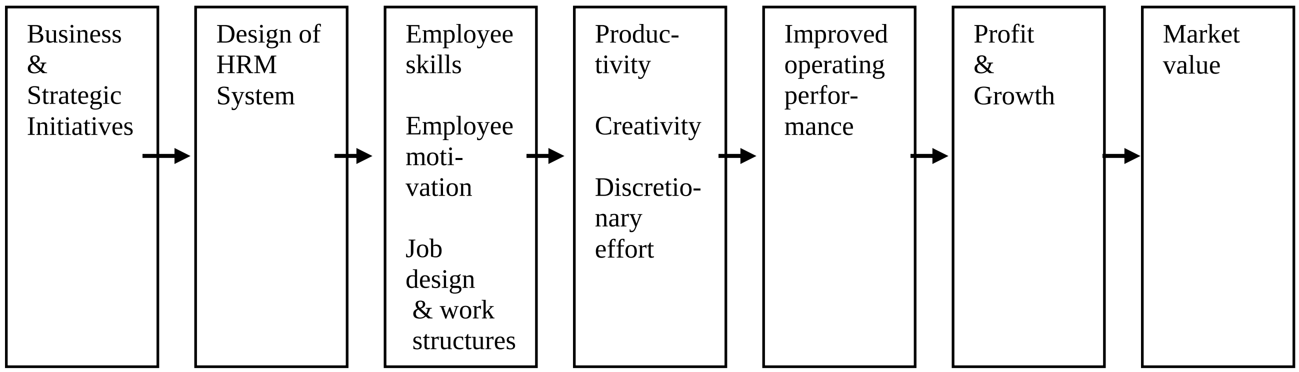
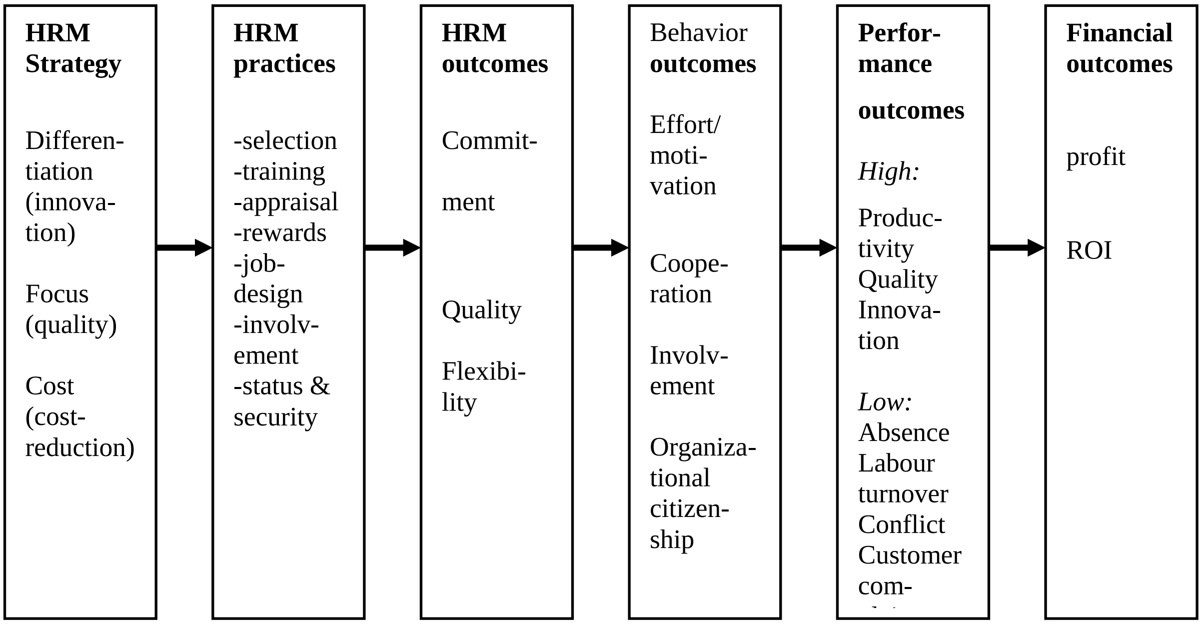
Figure 1 Conceptual model of Becker, Huselid, Pickus and Spratt



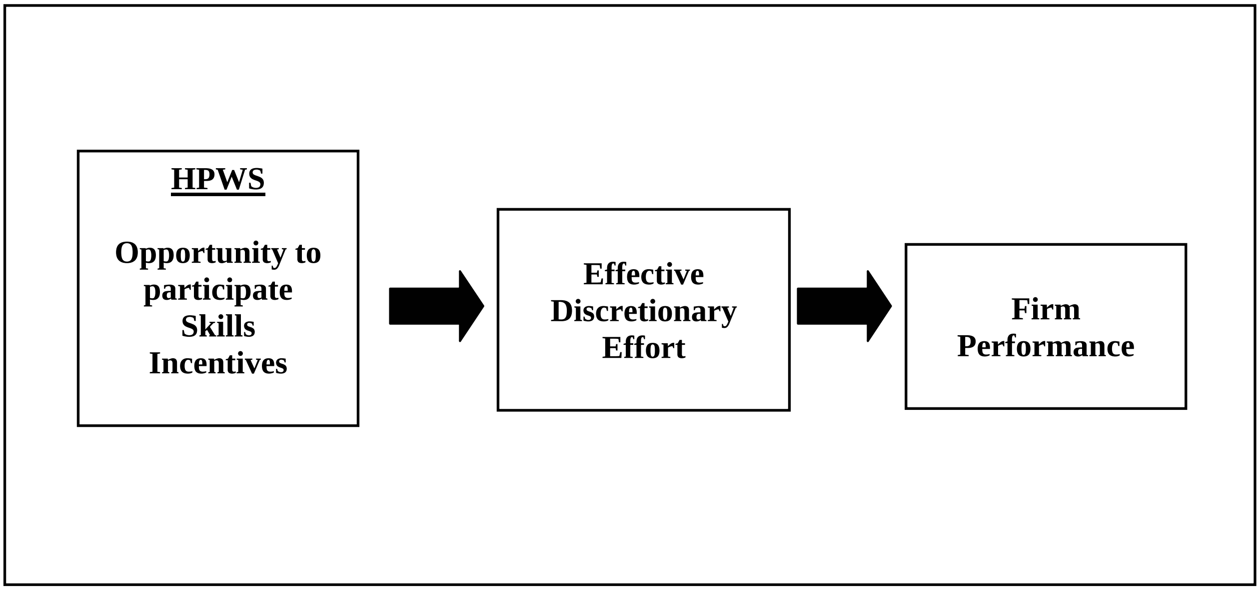
Source: Becker et al. (1997)

Figure 2 Conceptual model of Guest



Source: Guest (1997)

Figure 3 **Conceptual model of Appelbaum, Bailey, Berg and Kalleberg**



Source: Appelbaum et al.. (2000)

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[ii] AMO theory focuses on high performance work systems, in which the central elements are Ability, Motivation and Opportunity to participate, cf. Appelbaum et al., 2000.

[iii] In this respect it is interesting to refer to some recent empirical data, as collected among MNC's in the so-called Global Human Resource Alliance project. A research project carried out jointly by researchers from Cornell University, Cambridge University, Erasmus University and INSEAD: A whole range of internationally operating companies apply at a surface level more or less the same HR principles and practices (being: talent management, leadership development, performance management, among which appraisal and rewards, but the real secret among the most successful ones is the alignment of these

practices with the dominant value system in the organisation and the way it is being applied in a highly consistent way, with a high degree of consensus among the different hierarchical levels and being perceived as distinct and relevant by the employees at various levels in the organisation (being the criteria of the B/O framework).