SHRM FOUNDATION'S EFFECTIVE PRACTICE GUIDELINES SERIES

HUMAN RESOURCE STRATEGY

ADAPTING TO THE AGE OF GLOBALIZATION

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ADAPTING TO THE AGE OF GLOBALIZATION

by Patrick M. Wright, Ph.D.

HUMAN RESOURCE STRATEGY

The SHRM Foundation is the 501(c)3 nonprofit affiliate of the Society for Human Resource Management (SHRM). The SHRM Foundation maximizes the impact of the HR profession on organizational decision-making and performance by promoting innovation, education, research and the use of research-based knowledge. The Foundation is governed by a volunteer board of directors, comprising distinguished HR academic and practice leaders. Contributions to the SHRM Foundation are tax deductible. Visit the Foundation online at www.shrm.org/foundation.

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FOREWORD

Dear Colleague:

As a busy human resource practitioner, you probably find it difficult to keep up with the latest academic research in the field. Yet knowing which HR practices have been shown by research to be effective can help you in your role as an HR professional.

That's why the SHRM Foundation created the Effective Practice Guidelines series. These reports distill the latest research findings and expert opinion into specific advice on how to conduct effective HR practice. Written in a concise, easy-to-read style, these publications provide practical information to help you do your job better.

The Effective Practice Guidelines were created in 2004. The SHRM Foundation publishes new reports annually on different HR topics. Past reports, available online at www.shrm.org/foundation, include *Performance Management, Selection Assessment Methods, Employee Engagement and Commitment, Implementing Total Rewards Strategies, Developing Leadership Talent* and *Retaining Talent*. You are now reading the seventh report in the series: *Human Resource Strategy*.

For each report, a subject matter expert is chosen to be the author. After the initial draft is written, the report is reviewed by both academics and practitioners to ensure that the material is research-based, comprehensive and presented in an easy-to-use format. An annotated bibliography, "Sources and Suggested Readings" section, is included with each report as a convenient reference tool.

This process ensures that the advice you receive in these reports is not only useful, but based on solid academic research.

Our vision for the SHRM Foundation is to "maximize the impact of the HR profession on organizational decision-making and performance, by promoting innovation, education, research and the use of research-based knowledge." In addition, the Foundation is strategically focused on initiatives designed to help organizations maximize leadership talent.

We are confident that the Effective Practice Guidelines series takes us one step closer to making that vision a reality.

Frederick P. Morgeson, Ph.D.

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HR strategies need to simultaneously focus on building skills, motivation and behavior for a successful business strategy.

HUMAN RESOURCE STRATEGY: ADAPTING TO THE AGE OF GLOBALIZATION

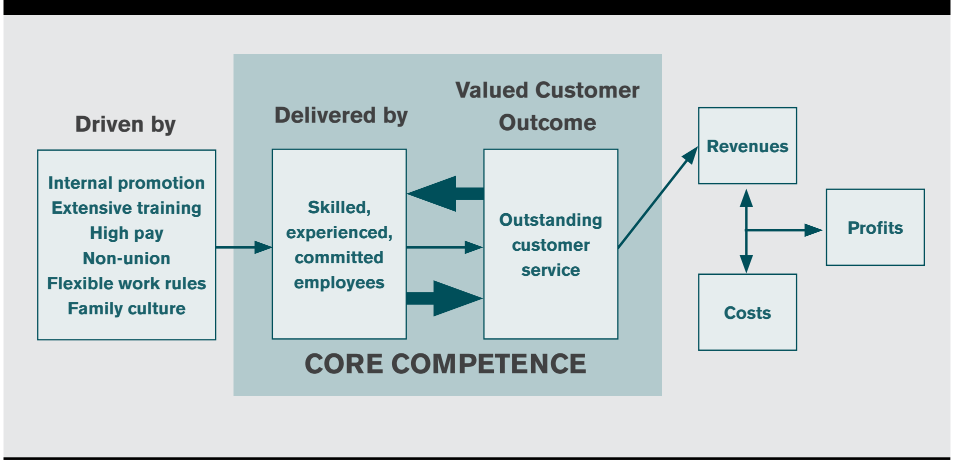
Globalization of individual companies and capital markets over the past two decades has changed the business landscape. Many firms have expanded operations overseas, and even strictly domestic businesses are facing competition from abroad. To respond to global competition, firms are using new technologies to provide better, lower-cost solutions for their customers, but these technological innovations have led to constant movement of customers and competitors. At the same time, global capital markets are pressuring firms to innovate and reduce costs—not an easy feat. All of these trends are pushing companies to manage their assets as effectively as possible—*especially their human assets.*

This report will explore a variety of ways to adapt your overall HR strategy to the new realities of global competition. Let's first take a look at how one company responded to these new pressures.

Delta Air Lines: From Clear Skies to Crash Landing

In the 1970s and 1980s, Delta Air Lines became the premier U.S. airline for customer service with a culture of "southern hospitality" and employees who went above and beyond the call of duty. The company's human resource strategy helped build the skills, motivation and opportunities for employees to deliver great customer service, and that allowed Delta to attract business travelers who paid premium prices for travel. Delta's success shows just how important HR strategy can be, especially in its impact on company performance.

Figure 1: Delta Air Lines: Pre-1994 Business Model



How did Delta do it?

- A great reputation in the industry enabled Delta to recruit and select only the best employees who had skills and attitudes that fit well into the company's family-oriented culture.
- Delta invested more than most airlines in training.
- Non-union status allowed for flexible work rules that let employees react to any situation and get the job done.
- Delta's internal promotion system led to long employee tenure and a workforce with a wealth of experience and knowledge.
- Relatively high pay also encouraged employees to stay with Delta for the long haul because they believed the company cared about them.

Before 1994, as seen in Figure 1, Delta's HR strategy was perfectly aligned with its business strategy so that HR practices built employees' skills and motivation to make the business work.

But by the 1990s, things were changing. Major business trends altered the competitive climate, and HR strategy had to change too. In 1994, after two straight years of record financial losses, CEO Ron Allen rolled out a new strategy called "Leadership 7.5." Allen aimed to reduce Delta's cost per available seat mile (CASM) from more than 10 cents to 7.5 cents, which would match that of major competitor Southwest Airlines. Along with a new business strategy came a massive transformation of Delta's HR strategy.

In Delta's new HR strategy:

- Training dollars were cut.
- Experienced employees were laid off and replaced with contingent employees.
- Delta put fewer flight attendants on each flight and fewer mechanics at the gates.
- Pay was frozen or cut for just about all employee groups.

The Delta business model and HR strategy now resembled Figure 2.

Figure 2: Delta Air Lines: Post-1994 Business Model (Leadership 7.5)

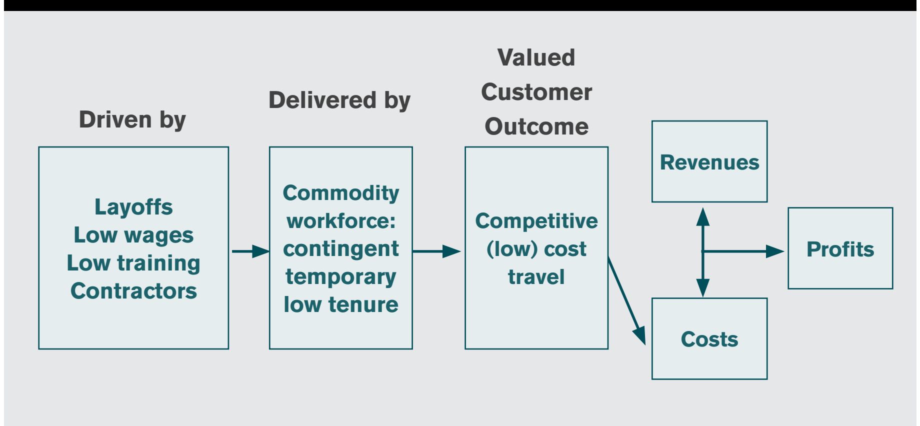
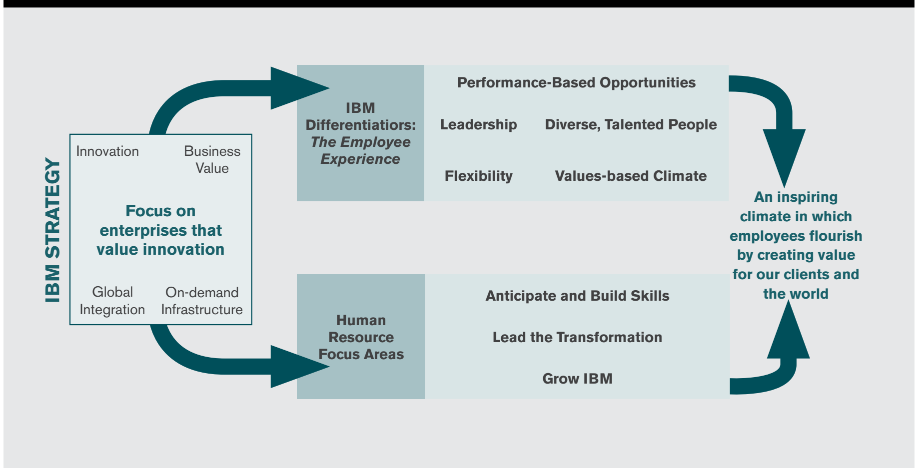


Figure 3: How the IBM HR Strategy Supports and Enables the Business Strategy



As an HR professional, you are responding to the same economic transformations that drove the changes at Delta. You need access to the most recent research on how to make employees a source of long-term competitive advantage under the pressures of globalization. This SHRM Foundation report gives you access to the research, principles, guidelines and tools for creating an HR strategy that will add value to your organization. The first step is to understand what HR strategy is.

WHAT IS HR STRATEGY?

If you ask the CEO of a large multinational company to explain HR strategy, you'll probably get a pretty general description of how HR supports his or her business. Computer giant IBM, for example, has a well-articulated HR strategy, as shown in Figure 3.

IBM's HR Strategy

As you can see, IBM's overall business strategy focuses on four areas: 1) innovation, 2) business value, 3) global integration, and 4) on-demand infrastructure. Behind this overall strategy are all of the employees who make it work. IBM's HR strategy identifies company characteristics that motivate and energize those employees.

IBM motivates its employees through:

- Performance-based opportunities.
- Leadership.
- Hiring diverse and talented people.
- Flexibility.
- A values-based climate.

But what role does HR play in building the ideal IBM workforce? Again, at IBM, the goals are clear.

At IBM, HR is expected to:

- Anticipate and build skills.
- Lead transformation.
- Grow IBM.

Despite what is obviously a thoughtful process of developing HR strategy, the chart and explanation above fall flat because they lack concrete guidance about specific ways that you could adapt HR practices to your own situation.

That's why this report uses a specific definition of *HR strategy*, designed to give you that concrete guidance and help you identify specific practices that are adaptable for you.

Getting Down to Specifics

For our purposes, *HR strategy* means a system of human resource practices for a particular job or collection of jobs aimed at the best employee performance possible to meet the firm's ultimate goals.

- This definition of HR strategy emphasizes the *system* of HR practices, because it is the *broad array of practices* that matter in terms of employee performance—not individual tests, recruiting or interview techniques, for example.
- It is also important to remember that HR strategies are best designed and implemented *for a particular job or a set of jobs.* Few firms manage their clerical workers the same way they manage their senior executives. Each group is recruited differently, is selected according to different criteria, attends different training programs and is paid differently. If your company is focused on customer service, you'll need to build customer service skills and behaviors into all customer-oriented jobs,

KEY TERMS

	Strategic HRM	HR Strategy	HR Best Practices
Focus	Human capital	Human resource practice system	Single HR practice
Level of interest	Organization or business level	Job level	Job level
Responsibility	Designed jointly between line and HR	Designed mostly by HR	Designed entirely by HR
Goal or objective	Get the right people in the right place in the business to maximize business success	Get people to have (skills), feel (attitudes) and do (behaviors) things that lead to job and business success	Get people to have (skills), feel (attitudes) *or* do (behaviors) something that leads to job success

but your specific strategy of recruitment, selection, training and rewards for a cashier will be different from those of a store manager.

- Finally, the best HR strategies always stay focused on getting *the best performance* from employees. Usually, this means getting employees to:
  - *Have* something (skills, competencies, abilities).
  - *Feel* something (commitment, engagement, motivation).
  - *Do* something (come to work, be productive, serve customers, stay with the organization).

If your HR practices are correctly designed and put in place, you'll get the best employee performance, which means you'll get the best overall company performance as well.

Strategic Human Resource Management, HR Strategy and HR Best Practices

The chart above provides a comparison of *strategic human resource management (HRM)*, *HR strategy* and *HR best practices*—terms that are often used interchangeably but are actually very different. They differ in their primary focus, HR involvement and ultimate goals—but all will be components of your overall HR strategy.

THREE VERSIONS OF A GENERIC HR STRATEGY

The HPWS Approach

Often, when you're considering how HR practices influence your firm's performance, you may focus on training or staffing practices. However, as shown in the Key Terms above, these are more "best practices" than strategies. One landmark study (Huselid, 1995) created a popular framework that can be used as a kind of generic HR strategy. The framework is known as the *high-performance work system (HPWS)* and is explained in Table 1 on page 6.

Implementing all of the practices outlined in Table 1 as part of the HPWS approach is probably in the best interest of any company because HPWS improves firm performance and works well across many different organizations.

Commitment vs. Control Strategies

Two very different overall HR strategies, labeled "commitment" and "control," have been identified and analyzed (Arthur, 1992).

The *commitment* HR strategy would include:

- Broadly defined tasks.
- High levels of employee participation.
- Highly skilled workers.
- Extensive training.
- High wages.
- High benefits.

However, the *control* HR strategy would represent the opposite:

- Narrowly defined jobs.
- Low participation.
- Low skill requirements.
- Intense supervision or control.
- Limited training.
- Low wages.
- Low benefits.

In practice, as you might expect, the commitment strategy generally leads to the best firm performance for those using a differentiation business strategy, but the control strategy may work best for firms with a cost-business strategy. In real-life terms, the two strategies go head to head in a comparison of Costco and Wal-Mart in Box 1.

The Value Matrix Approach

The HPWS approach suggests that it can fit all firms, regardless of overall business strategy, while the commitment/control approach says that different HR strategies are appropriate to different business strategies.

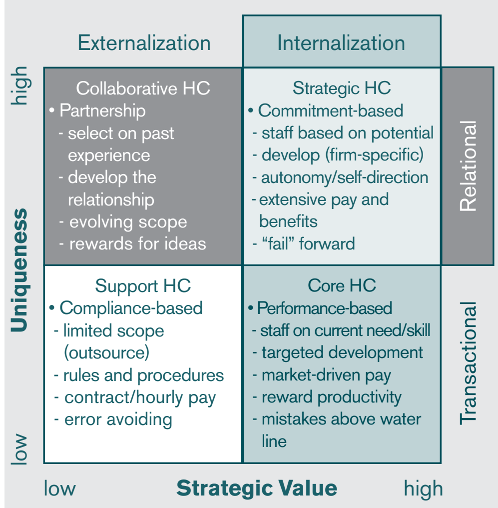
A third possibility is the *value matrix approach* (Lepak and Snell, 1999), which says that a firm can implement four possible HR strategies *(commitment, performance, compliance and partnership)* tied to four distinct job groups representing different types of workers *(strategic, core, support or collaborative)*.

Firms can distinguish the skill sets of particular jobs in terms of their value to the firm and their uniqueness in the labor market. In this value/uniqueness matrix, known as the human capital architecture, each quadrant includes descriptions of the appropriate HR strategy, as seen in Figure 4.

Is There an Ideal Generic HR Strategy?

Keep in mind that all of these attempts to create generic HR strategies are simply different points on a spectrum. At one end of the spectrum is the

Figure 4: Human Capital Architecture



goal of *overall employee engagement,* where HR practices elicit high levels of skill, motivation and attitudes that encourage workers to contribute proactively and stay with the firm. At the other end are HR practices that seek to *minimize the costs* associated with managing employees while maintaining sufficient work design and controls to be sure that they do their jobs. One study put it this way:

"The goal of *control human resource systems* is to reduce direct labor

Sam's Club vs. Costco

	Sam's Club	Costco
Profit per employee	$11,615	$21,805
Average hourly wage	$10.11	$17.00
Percent with health care	< 50%	82%
Percent of health care premiums paid	33%	8%
Turnover	44%	17%
Turnover cost per employee	$5,274	$3,628

Source: Casico, W. *The high cost of low wages.* Harvard Business Review.

Box 1

Costco vs. Wal-Mart: Battle of the Bulk Stores

Wal-Mart has been an amazingly successful company. But over the past few years, the company has faced increasing competition and scrutiny of its HR strategies, which have long focused on *low workforce costs* as a means of keeping prices low.

Sam's Club, the bulk division of Wal-Mart, has been competing against Costco in recent years. In a thorough comparison of the HR strategies and business results of these two companies (Cascio, 2006), Costco was shown to invest more in its sales associates through pay and health care benefits and to work with unions rather than actively fighting against unions, as Wal-Mart does.

Most importantly, despite the fact that Costco pays higher wages, it actually has lower labor costs and higher profitability per employee than does Wal-Mart. The study concluded:

"These figures illustrate nicely the common fallacy that labor rates equal labor costs. Costco's hourly labor rates are 40% higher ($17 vs. $10.11), but when employee productivity is considered (sales per employee), Costco's labor costs are lower than those at Sam's Club (5.5% at Costco compared to 6.25% at Sam's Club.)"

costs or improve efficiency, by enforcing employee compliance with specified rules and procedures and basing employee rewards on some measurable output criteria [...] *Commitment human resource systems* shape employee behaviors and attitudes by forging psychological links between organizational and employee goals. In other words, the focus is on developing committed employees who can be trusted to use their discretion to carry out tasks in ways that are consistent with organizational goals." (Arthur, 1992)

Although you may personally prefer to aim toward "developing committed employees," some firms succeed financially by taking the route of "enforcing employee compliance."

In the end, you can aim HR strategies at investing in human capital by building skills and motivation of the workforce and providing opportunities to participate, or you can aim at minimizing the cost of your human capital by controlling behavior, lowering the skill level of jobs and limiting opportunities to participate in decision-making in the firm.

Delta's Leadership 7.5 strategy certainly resembled a transformation from a commitment to a control HR strategy. But the question is: How did the new HR strategy affect Delta's company performance?

Table 1: Components of a High-Performance Work System Strategy: A Questionnaire

1. What proportion of the workforce is included in a **formal information-sharing program, such as a newsletter?**
2. What proportion of workers have had a **formal job analysis?**
3. What proportion of non-entry-level **jobs have been filled from within** in recent years?
4. What proportion of the workforce is **administered attitude surveys** regularly?
5. What proportion of the workforce participates in **Quality of Work Life (QWL) programs, Quality Circles (QC) and/or labor-management teams?**
6. What proportion of the workforce has access to **company incentive plans, profit-sharing plans and/or gain-sharing plans?**
7. What is the **average number of hours of training** for a typical employee over the last 12 months?
8. What proportion of the workforce has access to a **formal grievance procedure and/or complaint resolution system?**
9. What proportion of the workforce takes an **employment test** prior to hiring?
10. What proportion of the workforce has **performance appraisals to determine compensation?**
11. What proportion of the workforce receives **formal performance appraisals?**
12. Which of the following **promotion decision rules** is used most often?
    a. Merit of performance rating alone.
    b. Seniority only if merit is equal.
    c. Seniority among employees who meet a minimum merit requirement.
    d. Seniority.
13. For each of the five positions that your firm hires most frequently, **how many qualified applicants are there, on average?**

HOW HR STRATEGIES AFFECT PERFORMANCE

Researchers have found a significant relationship between HR strategies and profitability. However, this research has seldom identified how this relationship works. Figure 5 illustrates one model based on what employees have, how they feel and what they do. You have already seen that the primary impact of HR practices is on the workers themselves—the human capital. Let's look more closely at the human capital through the analysis of this model.

What Employees Do is Based on What They Have and Feel

The initial impact of HR practices is on what employees have and feel. Recruitment, selection, training and development are all aimed at bringing in or building certain skills, enabling employees to effectively perform their jobs. In addition, their experience with these practices, along with rewards, performance management and communication, shapes workers' perceptions of the company's fairness and desirability. And those perceptions then influence their commitment, motivation and engagement.

- What employees *do* is largely a function of what they *have*, because they cannot be productive if they don't have the right skills.
- What they *do* is also a function of what they *feel*, because they may choose not to be productive if they have negative feelings toward the organization.

Ultimately, HR strategy has the most significant impact on what employees actually do on the job. If the strategy focuses on customer service, for example, it will affect things like whether employees are friendly and helpful, whether they give the right answers and solve customers' problems. If the strategy is about efficiency, it will encourage employees to look for ways to lower costs or operate more efficiently. Do they engage in cost-saving behavior or waste time and money? The bottom line is that what employees actually *do* will decide how well the business strategy is executed.

In the end, what employees do is the critical link in executing strategy. Because what employees do depends on what they have and feel, HR strategies need to focus simultaneously on building skills, motivation and behavior for a successful business strategy.

Employee Actions Affect Business Success

There are five types of employee behavior relevant to a company's success.

1. *Task behavior* refers to things that employees are supposed to do as part of their jobs (from the bare minimum to the maximum).
2. *Discretionary behavior* refers to employees using their discretion to go above and beyond their job descriptions—such as the airline gate agent who races to return a forgotten briefcase.
3. *Counterproductive behavior* is all those things we do not want to see our employees doing: stealing supplies, taking long personal calls, even sabotaging products or equipment.
4. *Attendance* is the extent to which employees show up on time. Although perfect attendance is neither possible nor even desired (in the case of a sick employee), workers who call in sick when they feel fine create scheduling hassles and reduce productivity.
5. *Turnover*, of course, refers to an employee leaving the organization. Again, zero turnover is neither possible nor desired, but excessive turnover of average employees results in additional replacement costs, and turnover of an outstanding employee (if replaced by a less skilled employee) may result in a permanent decrease in productivity.

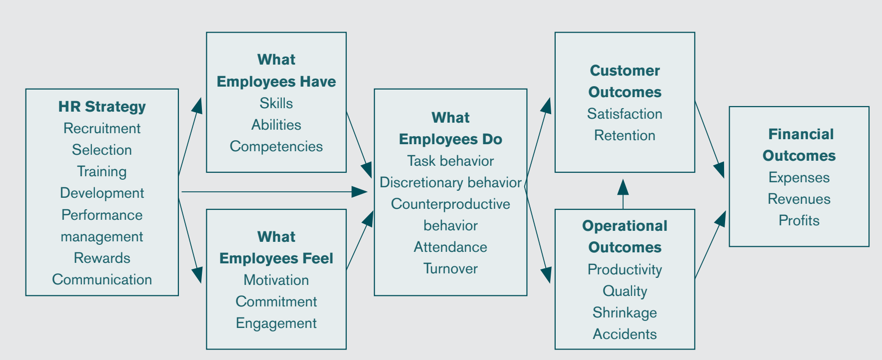
In discussing HR strategy, productivity is usually measured using the number of products produced or delivered divided by the number of full-time employees (FTEs) or number of labor hours. If employees are engaged in positive behaviors, fewer will be needed for a high level of output. On the other hand, careless or deliberate mistakes and negative employee behavior can cause product defects, some of which can't be repaired.

In some industries—such as mining and refining—accidents can be costly or fatal, and HR strategies must be developed to encourage safe behavior of employees.

Employee Actions Affect Customers

Any employee who interacts with customers has the potential to elicit positive or negative experiences. Box 2 describes the author's personal experience of how an HR strategy has

Figure 5: HR Strategy and Performance



Box 2

Flying the Not-So-Friendly Skies

Living in Ithaca, New York, one does not have a lot of options for flying from the local airport, which happens to be only five minutes from my house. I have flown for the past 11 years on one of the few airlines serving Ithaca, logging over 100,000 miles per year, with seven to 10 full-fare business class tickets each year. In fact, two years ago, they recognized me as one of their top 500 fliers.

Facing bankruptcy, the airline recently engaged in a cost-cutting strategy that required workers to take a 30 percent pay cut and later have their pensions handed over to the Pension Benefit Guarantee Corporation, resulting in an estimated 70 percent cut in their pension value. The management defined a set of standard operating procedures for employees to follow to control costs, and they have little discretion.

Needless to say, as the situation developed, the employees were not *feeling positive* about their employer and certainly were not generating positive customer impressions. Many would make derogatory comments about the airline. Rather than doting on first-class passengers as they had in the old days, flight attendants now would serve a drink or a meal and then sit in their jump seats reading until a customer rang the call button. These flight attendants exhibited only the minimum level of *task behavior, no discretionary behavior* and considerable *counterproductive behavior*. I continued to fly with the airline because I assumed that in this era of turmoil in the industry, all airlines were in the same situation.

However, last year, scheduling considerations led me to fly a different airline. I quickly discovered how flawed my assumption had been. The flight attendants never let my glass remain half empty without refilling it. They were happy and helpful. They seemed to enjoy their jobs and appeared glad to be of service. Now I drive an extra hour to get to the airport served by the other—“happier” —airline and consider the extra cost in time worth every minute.

The positive employee behavior created a positive customer impression and now will create an additional stream of revenue. Lack of effective employee behavior at the other airline created a negative customer impression and loss of considerable revenue.

influenced what employees feel and do, with significant impact on customers and company profits.

Employee Actions Affect Company Finances

Employee behavior can affect your firm’s financial outcomes, especially in its impact on operations and customer service. For instance, when quality and productivity decrease, there is an immediate impact on expenses if products must be destroyed, reworked or produced at higher cost. When customers get defective products or services, they will take their business elsewhere, obviously affecting the firm’s revenue stream. As revenues decrease and expenses increase, the firm’s profitability will soon deteriorate.

Every HR practice costs money to develop and time to implement and deliver. These costs go directly to the organization’s bottom line. For instance, being selective in hiring may result in better employees, but it will cost more in terms of testing and interviewing. In addition, providing more training for employees will increase their skills and potentially their attitudes, but every day of training costs both real money—for travel, accommodations, meals, trainer fees—and days when the employee is off the job.

You shouldn’t think in terms of doing more and more HR strategy, because at some point you will have diminishing returns when the additional investment in the practice costs more than the benefit gained. *Do* implement high-performance HR practices that increase productivity, but *don't* let their costs surpass the benefits—or there's no real financial gain for the company.

In order to create efficient HR practices that don't cost more than they are worth, you need a plan, or strategy map, to keep you on track.

From Balanced Scorecard to Strategy Maps

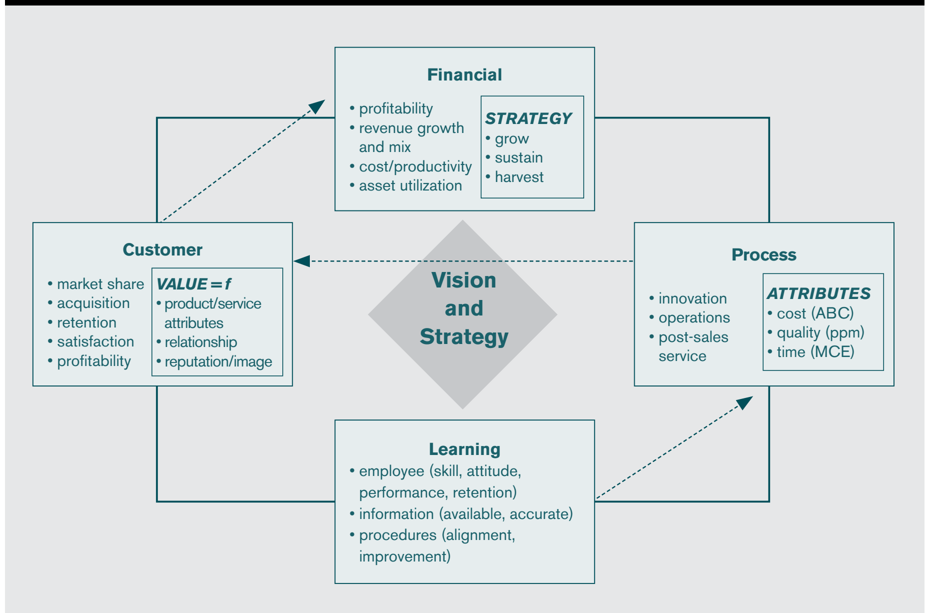
Overall organizational effectiveness is determined by more than just *financial* outcomes. A firm must also have a set of *customer metrics* that show how well it is serving that group. In addition, other *operational metrics* can help evaluate the effectiveness of business processes. The *balanced scorecard* offers a way of calculating all the aspects of your operation that go into creating your HR strategy (see Figure 6). The balanced scorecard also suggests that measuring employees' *learning outcomes* can help monitor the performance of a firm based on how well it is able to generate and transfer knowledge.

These different categories are all related in a way known as a *strategy map*.

In creating your own strategy map, it is important to know that *financial metrics* are determined by how well a firm meets its *customer metrics*, and customer metrics are determined by how well the firm meets its *operational and people metrics*, and operational metrics are influenced by the people scores.

These links exist in a *causal sequence*, so that:

Figure 6: The Balanced Scorecard



Source: Scott Snell, personal communication.

- Financial performance today depends on customer metrics from 2-3 months ago.
- Customer metrics depend on meeting operational and people metrics from 2-3 months earlier.
- Operational metrics are influenced by the people metrics even 2-3 months before that.

The point is that the scores on people metrics today will largely influence a firm's financial performance six to 12 months down the road. So trying to manage a firm by looking at today's financial metrics resembles driving out the rear-view mirror because they are not determined by what you do today but by what you did nine months ago. *So the only way to manage financial metrics for the future is to focus on people, operations and customers today.*

Now it's time to draw on some real-world examples of HR strategies in action.

REAL-WORLD IMPACT OF HR STRATEGIES

The primary impact of an HR strategy is on the employees themselves, in terms of what they have, feel and do. Let's revisit the example of Delta Air Lines to assess a real-world example of the impact of a new HR strategy. (See Box 3 on page 10.)

Impact on Employees

Commitment HR strategies have a positive effect on how employees feel and increase their satisfaction. This is what is often called *employee engagement* (see *Employee Engagement and*

Box 3

Delta Air Lines: So Be It

Delta Air Lines' Leadership 7.5 strategy moved the company from a commitment to a control HR strategy, focusing on reducing costs and not worrying much about employee commitment. In a front-page Wall Street Journal article about the Leadership 7.5 strategy, Delta CEO Ron Allen was quoted as saying, "Employee morale is not what it used to be. So be it." Why? Because the new strategy had resulted in record profits for Delta in 1994. But there was trouble brewing.

The day after the article came out, Delta employees began wearing "So Be It" buttons indicating their lack of engagement. Delta dropped to the bottom of the industry in on-time performance. The airline also had the highest number of baggage handling and customer complaints. In fact, from 1992 to 1993, customer complaints skyrocketed by 253 percent. Then the following year, complaints rose an additional 188 percent. Revenues from 1993 to 1998 rose at a compounded annual growth rate of just over 3 percent, when the industry average was 13 percent.

Delta had lost its core customer: the business traveler. Here was an HR strategy that resulted in short-term profitability, but had destroyed the human element that had been Delta's source of competitive advantage.

By the early 2000s, Delta's profits had evaporated and it declared bankruptcy. In 2008, Delta emerged from bankruptcy, but sought to merge with another airline (Northwest, at the time of this writing) because its business model seemingly no longer allowed it to differentiate itself from its competitors.

Commitment published by the SHRM Foundation). It describes an employee's emotional attachment to and/or identification with the organization and is what most employers would like to see in their workforce.

There are strong correlations between a commitment-based HR strategy and an employee's organizational commitment, or how much he or she personally identifies with the organization and wants to see it succeed. Employees generally react positively to these strategies with increasing satisfaction. The specific practices of challenging jobs, direct participation in decision-making and extensive information-sharing are associated with both work and life satisfaction. In contrast with some who view the commitment HR strategy as exploiting workers by making them work harder, it seems that employees want to be managed in this way (Guest, 2002).

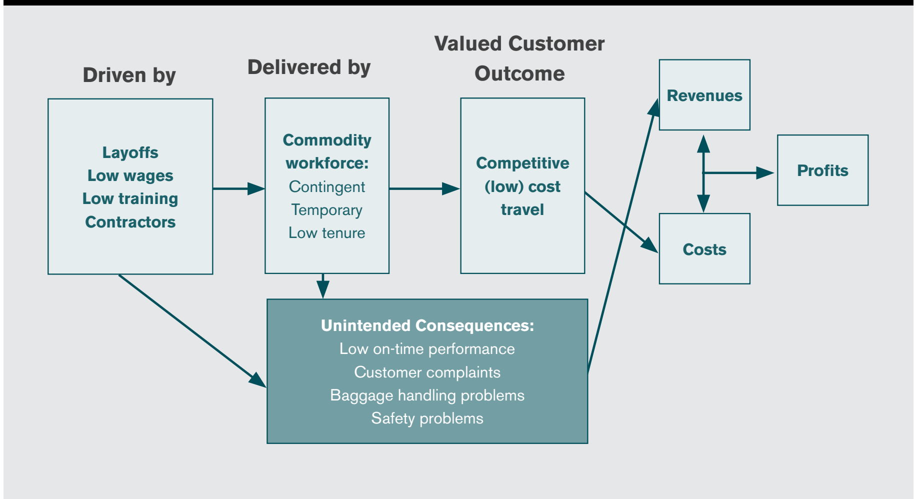
Not much is known about the improvement of employees' skills based on a commitment strategy. One study found that the HR practices in petrochemical refineries were related to how plant managers evaluated the skills of the workforce (Wright et al., 1999). Another study found that HR strategies were related to the skill levels, creativity and expertise of employees within a group of Japanese organizations (Takeuchi et al., 2007). As already noted, there are negative side effects of skill building when employees become more mobile. With extensive training and selective hiring come employees that are more likely to leave the organization (Gardner et al., 2006).

Ultimately, HR strategies affect what employees do. Commitment HR strategies mean better performance on core tasks, more going beyond the call of duty, greater willingness to share knowledge and generally lower quit rates or turnover (Sun et al., 2007). This again highlights the need for you to think in terms of a coherent HR strategy with many complementary practices that build the skills and commitment of employees.

Impact on Operations

Labor productivity, quality and shrinkage—all key to operations—are also affected positively by HR strategy. One important study (MacDuffie, 1995) examines the impact of an overall HR strategy in automobile manufacturing plants. The results show a strong positive impact on labor productivity (the

Figure 7: Delta Air Lines: Post-1994 Business Model (Leadership 7.5)



number of employee hours required to assemble a vehicle) and on quality (the number of customer-reported defects of the automobiles produced). A study of steel production lines sees HR strategies associated with a greater percentage of "uptime" for the lines (Ichniowski et al., 1997). HR strategies are also related to innovation, quality, workers' compensation costs and shrinkage (Collins and Smith, 2006; Wright et al., 2003).

But although many researchers find that HR strategy is related to labor productivity, that conclusion is not universal; at least two studies see no relationship (Capelli and Newmark, 2001; Guest et al., 2003).

Impact on Customers

HR strategies are clearly linked to employee attitudes, and the way employees perceive their experience with management is strongly related to customer satisfaction results (Schneider et al., 1980, 1985). The *service climate*—which refers to employees' shared perceptions of what practices will be expected, rewarded and supported—is especially important in making a positive impact on customers (Johnson, 1996; Schneider et al., 1998).

Among small businesses in the same industry, HR practices drive cooperation, customer orientation, employee commitment and managerial competence—and therefore have a major influence on customer satisfaction (Rogg et al., 2001).

And in call centers, HR practices emphasizing employee training, discretion and rewards lead to higher service quality as measured by customer satisfaction surveys. HR practices are also related to higher revenue per call as well as net revenues per call, which seems to say that when customers are very satisfied, they actually buy more (Batt et al.).

So research strongly suggests that service climate has an impact on customers and that HR strategy that focuses on service is strongly related to customer satisfaction as well.

Impact on Financial Performance

Plenty of research exists showing links between HR strategies and a variety of financial outcomes because financial performance information for all U.S. publicly held companies is readily available.

In a study of the HR practices at more than 700 companies (Huselid, 1995), HR practices were shown to be clearly related to both financial and stock price measures of performance. Those connections are demonstrated in studies of the banking industry (Delery and Doty, 1996), manufacturing firms (Youndt et al., 1996), in firms in New Zealand (Guthrie, 2001) and in other U.S. cross-industry studies (Datta et al., 2005; Snell and Youndt, 1995).

Finally, as consulting firms build their human capital practices, some of them are establishing a link between HR strategies and performance, too. For example, WatsonWyatt developed what the company refers to as its Human Capital Index©. It consists of a number of specific practices that have been statistically tied to firm performance as measured by total return to shareholders over a five-year timeframe. The practices are grouped into six categories with an expected increase in shareholder return associated with each.

Their findings are illustrated below:

Category	Total Return to Shareholders
Total rewards and accountability	16.5%
Collegial, flexible workplace	9.0%
Recruiting and retention excellence	7.9%
Communications integrity	7.1%
Focused HR service technologies	6.5%
Prudent use of resources	-33.9%

In almost all studies of the subject, it is clear that HR practices are related to corporate financial and economic performance—and this has important implications for your organization. In fact, as one important study concludes:

> "Based on four national surveys and observations on more than 2,000 firms, our judgment is that the effect of a one standard deviation change in the HR system is 10-20% of a firm's market value." (Huselid and Becker, 2000)

Quantitative analysis of this research shows that a very small increase in the use of HPWS could result in more than a 4 percent increase in return on a firm's assets (Combs et al., 2006). In addition, these findings seem to work for small and medium-sized businesses, as described in Box 4.

The message here is that commitment HR strategies have consistently been demonstrated to have positive relationships with employee, operational, customer and financial outcomes.

Three Caveats Before Moving Ahead

There are some cautionary aspects in all this research that you should consider.

Caveat #1: Causal Direction

It is not clear yet whether HR strategy causes performance, or vice versa. For instance, questions such as "how many hours of training do employees receive each year?" or differences in merit increases offered to high and low performers are clearly influenced by financial performance. When a firm's financial situation suffers, it trains less and offers low or no merit increases.

Often, studies measure financial performance of firms *up until* the survey of the HR practices, so they actually demonstrate a relationship between current HR practices and past performance. Others use performance measures taken only *after* measuring HR practices. A few studies suggest that it's impossible to conclude which direction the causal arrow points, but most likely it points both ways. *HR strategies can positively affect firm performance, but firm performance can also affect HR strategies.*

Caveat #2: Measuring HR Practices

There is no consensus regarding the exact HR practices that make up a high-performance HR strategy. There is some agreement about the categories of ability, motivation and opportunity, but which practices should be assessed within each category is less clear. So comparing across studies is difficult because each study may have measured slightly different HR strategies. In addition, many studies ask a single person in the organization to report the HR practices, perhaps capturing more of that individual's perceptions than the true set of practices.

Caveat #3: Fitting HR Strategy to Business Strategy

There is no strong support for the need to fit HR strategy to business strategy. As you may remember from the earlier table showing some of the HR practices measured in previous studies, practices are stated in very generic terms. For example, "the use of valid selection tests" is a great idea, but a valid test for a customer service representative will be vastly different from a valid test for a computer programmer. Often, the annual number of training *hours* is assessed but not the *type* of training. Of course, training for a sales rep at a retail store such as Gap will be quite different from the training needed for a pharmaceutical sales rep.

In the end, although you should recognize these three caveats, you can rest assured that there are solid positive results associated with commitment HR strategies. But although research shows a consistent relationship between high-performance HR strategies and employee, operational, customer and financial performance measures, the exact nature and size of this relationship is less certain.

One Real-World Impact: The Sysco HR Strategy

Sysco Corporation is a model for change. The world's largest food service firm with operations throughout North America, Sysco provides all of the materials (food, napkins, silverware, pots and pans) necessary for a restaurant to run its business. This industry was traditionally fragmented with lots of small, local food service

Box 4

HR Strategies in Small and Medium-Sized Enterprises

As you look at some of the HR practices discussed thus far, it may be obvious to you that these practices are much more likely to characterize HR in large bureaucratic organizations that have relatively large HR divisions with more than 50 staff members. Although such firms are the focus of most HR research in the United States, they make up a small minority of the total population of firms and certainly are not where most of the job growth occurs. Rather, small and medium-sized enterprises (SMEs) are where most job growth takes place, and these firms have unique approaches to HR.

A Study of 600 Businesses

Because so many SMEs are owner-operated and have few or no HR employees, their HR practices are informal and reflect principles rather than specific practices. In a large study of these firms done at Cornell University, a team of researchers looked at the impact of these more informal HR systems on important firm outcomes. Using clients of Gevity Consulting, an HR outsourcing firm focused on SMEs, the researchers assessed HR practices, employee attitudes and multiple performance outcomes across more than 600 businesses. They focused on three main aspects of HRM and identified a few alternative HR strategies within each.

- **Employee selection**
  Small and medium-sized businesses can focus on "person-job fit" by hiring people for the specific job (only looking at the skills directly relevant to the job applied for), or they can focus on "person-organization fit" (looking for broader skills, the ability to get along with team members and fit in the company culture).
- **Workforce management**
  Such businesses can emphasize tight controls by closely monitoring day-to-day activities of employees using lots of explicit rules and procedures to dictate their pace and schedules. Or, they can use "involvement and self-management" to get employees involved in defining their activities, giving them more autonomy.
- **Motivation and retention**
  SMEs can use monetary incentives—paying higher wages than competitors and using financial rewards for performance—or a family-like community and environment, using social events and meetings to foster employees' emotional attachment to the company.

Some HR strategies are clearly more effective than others. The results comparing the different approaches are illustrated below.

Employee selection	**Turnover**	**Revenue**	**Profit**
Person-job fit			
Person-organization fit	17.1% lower	7.5% higher	6.1% higher
Workforce Management			
Tight controls			
Involvement/self-management	15.1% lower	11.5% higher	3.9% higher
Motivation and Retention			
Monetary incentives			
Family-like community	19.1% lower	3.8% higher	13.3% higher

So, although large firms focus primarily on building systematic HR practices and processes that increase employees' skills and motivation, effective HR strategies among smaller firms seem to focus much more on selecting, managing and motivating employees by creating and supporting family-like cultures to which workers become emotionally attached.

distributors, until Sysco founder, John Baum, convinced a number of entrepreneurs to band together under one corporation so that they would have greater economies of scale and bulk purchasing power. In order to do this, Sysco created a structure in which each company remained autonomous.

By the time Ken Carrig came in as the Executive Vice President of HR in 1998, Sysco had more than 60 separate operating companies, all of which were managed under the *earned autonomy* principle: As long as a firm was delivering satisfactory performance, corporate headquarters would leave it alone. Within this structure and culture, Carrig was unable to mandate that companies implement *high-performance work systems*. So he decided to gather data to provide convincing evidence of the importance of people to business performance and the value of state-of-the-art HR practices in effectively managing those people.

In 1998, he put out a low-cost climate survey to gather employee satisfaction/engagement data for a fraction of what some were paying consulting firms. He made it possible for companies to choose to participate in either the fall or the spring, depending upon their own business cycles. Because data collection was conducted in partnership with a university, university researchers were able to add a number of items. In the first year, 33 companies chose to participate in the survey, summarized in Table 2.

Table 2: HR Practices Measured in the Sysco Climate Survey

1. Do applicants for this job have to take a formal test?
2. Do employees in this job receive regular information about the company's performance?
3. Do employees in this job receive a regular formal performance appraisal?
4. Do employees in this job have access to a formal grievance procedure?
5. Do employees in this job receive increased pay, such as merit increases, bonuses, etc., for individual job performance?
6. Do employees in this job receive increases in pay for group or companywide performance?
7. On average, how many hours of training do employees in this job receive on an annual basis?

The results of the survey provided a foundation for making a persuasive argument to company presidents as to why they should implement effective HR strategies within their companies.

The companies that implemented more of the *high-performance/commitment practices* far outperformed those that had not in terms of pre-tax operating profit in the short term (three to nine months after the survey) and the long term (nine to 15 months after the survey). In fact, there was almost a full percentage point difference in profit margin between those businesses using the most HPWS practices compared with those using the fewest.

This alone should provide convincing evidence, but Carrig also showed Sysco executives how these same companies outperformed their counterparts in terms of both short- and long-term operating expenses, as illustrated in Figure 8.

All of these companies also had significantly higher employee engagement. As if this were not enough, Carrig showed similar relationships with almost all of the metrics that mattered to operating company presidents, including *retention in key jobs, quality, shrinkage, productivity, workers' compensation expenses* and c*ustomer satisfaction*.

In essence, what Carrig did was to provide support for almost every linkage between HR strategy and performance, as shown more directly in Figure 9. But again, HR practices are stated in relatively generic terms, so they would not be sufficient to guide the design of specific HR programs and policies.

Putting Carrig's approach to work

When it came time to help the operating companies implement the HR strategies, Carrig's group provided some tools, including:

- *A Five-Star Handbook,* which provides ideas for how to implement these basic practices.
- *A Knowledge-Sharing Portal,* where business and HR leaders could go to find out how other operating companies had developed and implemented specific best practices.

So, for example, instead of the generic "sharing information about company

Figure 8: HR Practices and Operating Expenses at Sysco

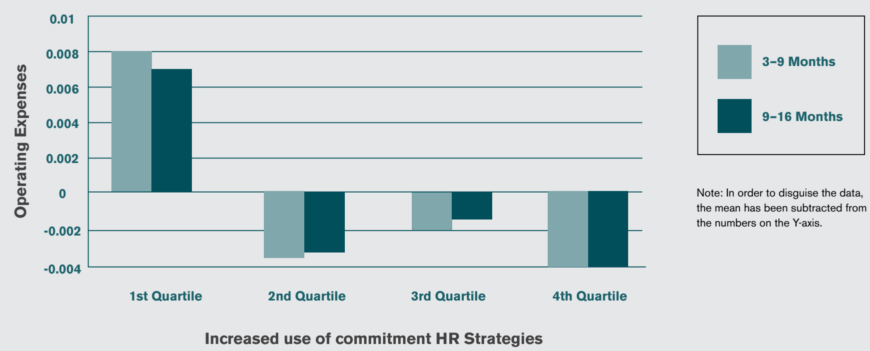
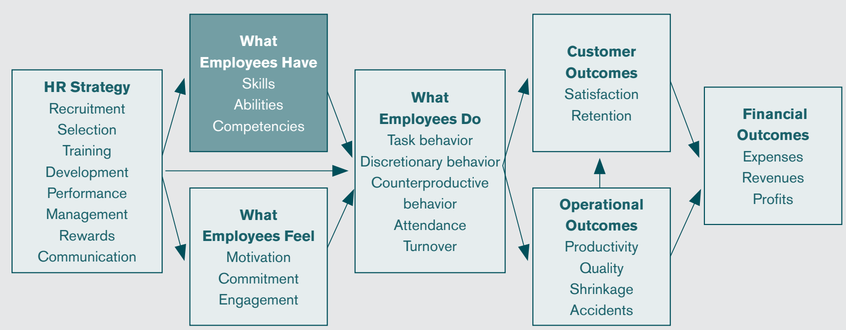


Figure 9: HR Strategy and Performance



performance," leaders would find out how to conduct a town hall meeting with employees so they could share performance information.

This Sysco example proves the value you can gain from implementing commitment HR strategies and a model for how to develop specific HR practices from generic ones.

The final section provides a set of guidelines to follow for developing *your own* effective HR strategy.

BUILDING YOUR OWN HR STRATEGY

Dell Versus Hewlett-Packard

Dell has been a perennially successful company. After its start in Michael Dell's dormitory room at the University of Texas, the company quickly became one of the fastest growing in history. Of all the plateaus and bumps along the way, none was as serious as the competition Dell faced in mid-late 2000 from Hewlett Packard (HP).

Dell's corporate model emphasized providing good quality PCs and laptops to the business market. Its "Premiere Pages" made it easy for companies to custom configure and order these products online, and the Dell direct business model (including an extremely effective lean assembly system) enabled the firm to offer these products at a significant price advantage over its competition, including HP.

But recently HP overtook Dell as the world's largest manufacturer of PCs. Now Dell must develop a new HR strategy to better compete with HP. How? Through the same step-by-step process you can follow, described below.

Step 1: Analyze Your Industry

Within any industry, many of the dynamics change over time in ways that alter the nature of competition—and the computer industry is no different.

- HP was able to develop a much *leaner production* process in recent years. Although not as cost-efficient as Dell's, HP's production got closer and much more cost-competitive.
- The largest growth since the mid-2000s has been in the *consumer market*—not the corporate market. Most business users had little choice in computers because IT departments made the choice for employees. Now consumers have a wide range of choices, and their wants are different from those of business users.

Box 5

HR Strategies Differ Among Industries

It is always effective to implement a state-of-the-art HR strategy, but in some industries, the benefit is greater than in others.

Industry characteristics influence the effectiveness of HR strategies. Increasing the use of state-of-the-art HR strategies has a stronger impact on labor productivity in low as opposed to high capital intensity industries (14.3 percent vs. 1 percent), in industries where growth is high as opposed to low (20.1 percent vs. 3.23 percent) and in industries with high versus low product differentiation (18.2 percent vs. 1.9 percent).

In addition, among small businesses, state-of-the-art HR strategies are found to be most effective in retailing and low-skill services firms and somewhat less effective—but still worthwhile—in professional service and manufacturing firms (Collins, 2006).

- They want function and style: sleeker, more colorful and generally more visually attractive products that are as much a fashion statement as a technological tool.
- The "touch and feel" of the product is important; they want to pick it up, feel it, put their fingers on the keys before they make their buying decision. This cannot be done via the Internet but requires a physical location where customers can compare alternative choices.
- Most consumers are not well-skilled in how to fix their computers and do not have access to the IT departments corporate clients use to service their equipment. So consumers need much more one-on-one help in the service arena.

Dell has little or no experience offering what the average consumer needs in a home computer—and, more importantly, it lacks the capability to make the offer.

Table 3 provides some questions that you can ask to determine the ways in which your own company's industry may be changing.

Step 2: Understand Your Value Chain

The value chain is a tool for understanding where your company creates value superior to that of your competitors. Most value chains consist of between four and seven reasonably discreet sets of processes and activities that track the first steps in the design of your product all the way through to sales, distribution and/or service to the customer.

In Figure 10, which shows the value chain of the PC/laptop industry, it becomes clear that Dell has traditionally been strong in the supply chain and distribution (to corporate clients). But the company has been weak in the design stage and in distribution and service to consumers.

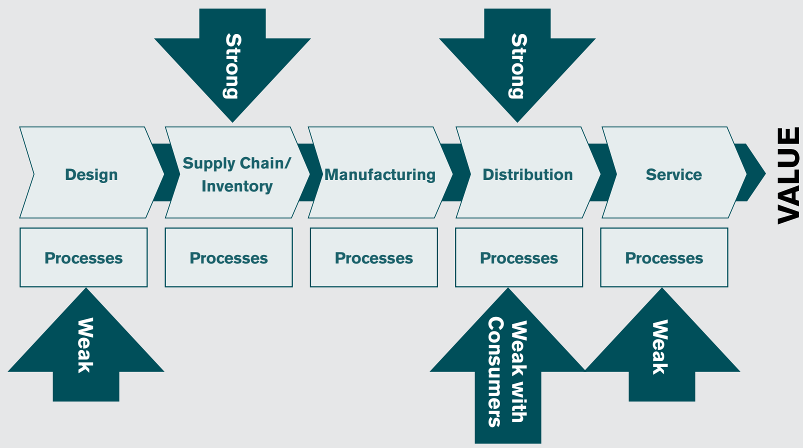
Suddenly, it's clear how HP has supplanted Dell as the number one computer manufacturer. Dell is at a distinct disadvantage in precisely the capabilities needed to compete in the consumer market.

Table 4 provides some questions to help you analyze your own value chain. But remember, you may need to consult your business leaders to make sure that you see your organization the same way that the business leaders see it.

Table 3: How Is *Your* Industry Changing?

1. Is the industry growing, plateauing or declining?
2. How many new competitors are entering and on what basis are they able to enter? (Cost? Quality? Innovative products or functionalities?)
3. What customer categories within the industry are changing and in what ways? Are different customer segments growing at different rates? How are their demands changing?

Figure 10: Dell's Value Chain



Step 3: Recognize Your Key Processes

Once you have thought about the components of your value chain in terms of grouping together interdependent business processes, the next step is to distinguish which processes are *key*. Key processes are the ones that are most critical to the successful implementation of each component of the value chain. These processes must be executed almost *flawlessly* to truly set you apart from your competitors.

Under *Dell's old business model*, the key process seemed to be the just-in-time inventory process that ensured that the company had the right parts to build the required computers to the required specifications, but little or no excess inventory. The manufacturing process was built around custom assembly, with parts arriving at a station for just the right computer. On the output side, the model shipped to the corporate client directly, with no finished products in inventory.

Now, note that when focusing on the new consumer market, Dell will be engaged in longer production runs of the exact same product. The just-in-time supply chain is still critical, but the manufacturing process will change considerably. And distribution to retail outlets changes this process so that Dell now will have significant inventory carrying costs.

Step 4: Identify Your Key People

One of the first things to understand with regard to an HR strategy is that firms do not have just one HR strategy, they *have multiple HR strategies* because they have different kinds of people who bring different value to the organization.

A tool known as the *human capital architecture* (seen previously in Figure 4 on page 5) classifies competencies

Table 4: Understanding *Your* Value Chain

1. What are the 4-7 major aspects of your value chain that are most interdependent and might be organizationally structured together?
2. Among the components you identified above, in which is your firm the best in the industry? What makes you sure you are the best? Who in your industry is a close second?
3. Among the components you identified above, in which are you at parity with most of your competitors (in other words, you are not the best in the industry, but you are reasonably competitive in that area)?
4. Among the components you identified above, in which are you at a disadvantage relative to your competitors (in other words, one or more of your competitors are significantly better than you)?
5. As you look at the future of the industry, which component will become more important and which will become less important for success within the industry? How are you positioned with regard to them?

Table 5: Identifying Key People

1. If your value chain is relatively stable, who are the people (either job groups or subgroups in a particular job) who are most critical to effectively executing each portion of the value chain?

2. If your industry is changing and this is influencing your value chain, who are the key people (again, either job groups or subgroups of unique employees in a particular job) in the parts of the value chain that need to change?

3. For each of those identified above, how unique are their skills? Can they be easily bought in the open labor market or are they hard to find? Are they people who need to be brought into the organization as employees or can you contract with them to gain access to their skills?

held by different jobs or subgroups of employees within jobs in terms of the value that they provide to the firm's strategy and the uniqueness of the skills they possess. This is certainly a useful exercise to go through in analyzing your organization. However, the ratings you gain may not differ much from what you learned by examining your value chain. *Chances are that the most valuable and unique people are those who are critical to the execution of the most important parts of your value chain*. If your industry is changing, the key people will be in the areas of the value chain that are becoming increasingly important.

Because design, distribution and service are critical to the consumer market and Dell has little or no capability there, certain types of people must be brought in to build that capability.

- In the design stage, Dell needs innovative product designers who know about computers and are well connected to fashion and trends.
- If Dell is going to begin selling through retail outlets such as Wal-Mart and Best Buy, it needs sales people who have *experience in selling to retailers*.
- Because consumers are not as technologically proficient as corporate customers, Dell needs to provide access to *customer service technicians who can work with consumers* to get their products serviced. These needs are illustrated in Figure 11.

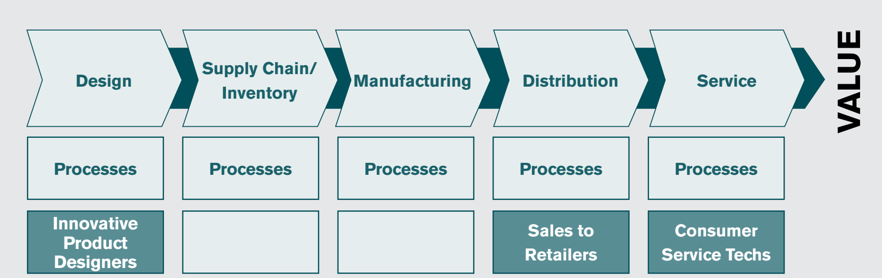
Table 5 provides some questions to help you think about the key people you have and what additional key people you need to improve your organization.

Step 5: Build Your HR Strategy

Once you have identified key people, you can effectively develop and implement an HR strategy to ensure that you have the right people with the right skills doing the right things in those jobs that are important to the successful execution of the business strategy.

Remember that studies of HR strategy suggest that there are some best practices, including:

Figure 11: Dell's People Needs



- Recruiting large pools of applicants that enable you to be more selective.
- Using valid selection tests to assess the skills of the applicants.
- Performing regular appraisals to distinguish levels of performance.
- Giving regular formal and informal feedback.
- Providing substantial training to upgrade or maintain skill levels.
- Offering competitive pay packages.
- Tying monetary incentives (merit increases, bonuses, etc.) to high performance.
- Providing information on the company's performance, competitors and industry.
- Allowing employees to participate in decisions.

This list should now become an analysis tool that requires *time, effort and insight* on your behalf. These general best practices need to *fit the needs of each job* being analyzed.

In the Dell example, the company needs innovative product designers, sales representatives to retail outlets and consumer service technicians. Each of these jobs is quite different, and although the principles may be common, the actual practices will differ.

For example, *with regard to recruitment,* product designers might be recruited from Apple or other firms that have particular competence in design. But sales representatives might be recruited from consumer goods firms such as Proctor and Gamble or Unilever.

Figure 12: Dell's HR Strategy

Service representatives could be contracted through the Geek Squad affiliated with Best Buy.

With regard to assessment, the product designers might be assessed based on their creativity, the sales representatives based on interpersonal skills and the service technicians based on their technical capability.

Similarly, the rewards, performance management, training and other components of the HR strategy will all exhibit best principles, but will be put into practice quite differently. An example of how to build the HR strategy for the innovative product designers at Dell is presented in Figure 12.

Tailoring Your HR Strategy: Gap vs. Nordstrom

How you put specific practices into operation will differ across business strategies. Think about two retail companies, such as Gap and Nordstrom. Both companies sell clothing, but with different strategies. Nordstrom tends to focus on upscale customers and seeks to establish long-term relationships through superior customer service. Gap focuses on the broader consumer market and sells stylish clothes, but with more of a self-service approach than Nordstrom. Both firms recruit, hire, train, evaluate and reward sales associates, but in very different ways.

- Gap tends to hire younger, more mobile employees who may stay with the company for a year or less before moving on to a different retailer. They tend to be paid a market rate, with little in the way of pay for performance.
- Nordstrom seeks more experienced sales associates, ones who want a career in retail sales. In order to attract and retain them, they provide a highly commission-based pay system that both motivates customer service and retains high-

performing associates who would find it difficult to make as much money at competitors. Remember: HR strategies that support business strategies emanate from an understanding of the competitive environment, value chain, core business processes and key people or competencies. Although the basic *commitment strategy* principles will be the same, how they are put into operation may differ across business strategies and across jobs.

FUTURE CHALLENGES

The Talent Problem

Identifying and keeping "talent" is becoming more and more important to CEOs and senior executives. Firms increasingly are trying to differentiate "key people" from everyone else. But this can have some negative consequences, so the task of HR executives is to create and put in place specific HR strategies for those employees labeled as talent—whether they are potential leaders, scientists who develop new products or others.

Differentiation of various types of employees will require different kinds of training and total compensation, but, of course, if more resources are flowing toward the talent, fewer resources are available for everybody else. Your organization's challenge will be figuring out how to attract, select, motivate and retain the majority of employees with fewer resources.

Doing More With Less

As an HR professional today, you are expected to play a more strategic role than ever before and develop better and better HR processes, but at the same time, you're being asked to reduce headcounts. The new workforce differentiation mentioned above will probably require a variety of new HR approaches—all with fewer people on your team to help design, develop and deliver them.

Back to Globalization

A world of increasing global competition is the backdrop for both the more differentiated workforce and fewer resources to deal with it. International cultural and institutional differences will compound the need for more diverse HR strategies.

Even if HR principles remain the same, they'll have to be translated into action differently from country to country. But again, pressure to save money and use standardized HR processes and shared information technology will be enormous. The double pressure of creating more and more complex and diverse HR strategies and making them standardized throughout your organization will create many conflicts for the foreseeable future.

Let the Challenges Energize You

Ideally, these challenges will energize, not frighten or demoralize you. They highlight the complexity inherent in managing people, a complexity that requires deep expertise to both understand the problems and develop coherent responses. New challenges will only increase the value of strategic HR experts and the importance of HR in every organization's success.

CONCLUSION

There is no doubt that the HR strategy you adopt should help your organization's employees contribute at the highest level possible and improve the bottom line. In helping employees improve their skills, attitudes and behavior and decrease turnover, you help your company meet its ultimate goals, including productivity, quality and customer satisfaction.

Although there is some anecdotal evidence—including the comparison of Sam's Club and Costco—that may suggest that firms can find success taking the low road or "control" strategy, most of the research doesn't bear this out.

The various HR strategies from which you can choose can also be thought of as principles for managing the workforce. As an HR professional, you can translate these principles into specific policies and practices for building the right skills, eliciting the right behaviors and achieving the right outcomes for your firm's own particular business strategy.

Of course, what is right for one company may not be right for another. But certainly, if you can create a coherent HR strategy, you're likely to be able to demonstrate how HR can add value to your firm in this transforming, globalizing marketplace.

The scores on people metrics today will largely influence a firm's financial performance six to 12 months down the road. So the only way to manage financial metrics for the future is to focus on people, operations and customers today.

SOURCES AND SUGGESTED READINGS

HR STRATEGIES AND EMPLOYEE OUTCOMES

Batt, R. (2002). Managing customer services. Human resource practices, quit rates, and sales growth. *Academy of Management Journal, 45*, 587-597.

The relationship between human resource practices, employee quit rates and organizational performance in the service sector is examined. Lower quit rates and higher sales growth were found in organizations that focused on high relative pay and employment security. The relationship between human resource practices and sales growth was partially mediated by quit rates. The customer segment served also moderated these relationships.

Collins, C. J., & Smith, K. G. (2006). Knowledge exchange and combination. The role of human resource practices in the performance of high-technology firms. *Academy of Management Journal, 49*, 544-560.

A theory of the effect of human resource practices on the organizational social climate conditions that facilitate knowledge exchange and combination as well as the resultant firm performance was developed and tested. Commitment-based human resource practices were positively related to the organizational social climates of trust, cooperation and shared coded language in a study of technology companies. A firm's social climate was related to the firm's capability to exchange and combine knowledge. This relationship predicted sales growth and revenue from new products and services.

Guest, D. (2002). Human resource management, corporate performance, and employee well-being: Building the worker into HRM. *Journal of Industrial Relations, 44* (3), 335-358.

This article reviews criticisms of HRM strategies, mainly that they exploit workers to the benefit of the corporation. It examines a number of studies demonstrating positive reactions to high-performance/commitment HR strategies and then presents additional data showing how many of these practices are positively related to both work and life satisfaction.

Tsui, A. S., Pearce, J. L., Porter, L. W., & Tripoli, A. M. (1997). Alternative approaches to the employee-organization relationship. Does investment in employees pay off? *Academy of Management Journal, 40*, 1089-1122.

Four approaches to the employee-organization relationship are defined from the employer's perspective. In an empirical study of employees from 10 companies, support was found for the hypothesis that four different types of relationships exist. An overinvestment or mutual investment relationship led employees to perform better on core tasks, demonstrate more citizenship behavior and express a higher level of affective commitment compared with those who worked in a quasi-spot-contract or underinvestment relationship. Controlling for several variables that could affect performance and attitudes led to the same results.

Whitener, E. M. (2001). Do "high commitment" human resource practices affect employee commitment? A cross-level analysis using a hierarchical linear model. *Journal of Management, 27*, 515-535.

The relationships among human resource practices, trust in management and organizational commitment are explored relying on a cross-level paradigm and social exchange theory. Analysis from a sample of credit union employees demonstrates that trust in management does have an impact on the relationship between perceived organizational support and organizational commitment. Human resource practices have an effect on the relationship between perceived organizational support and organizational commitment or trust in management, as indicated by cross-level analyses using hierarchical linear modeling.

HR STRATEGIES AND OPERATIONAL OUTCOMES

Arthur, J. B. (1994). Effects of human resource systems on manufacturing performance and turnover. A*cademy of Management Journal, 27*, 670-687.

Two types of human resource systems were identified, one using control and the other commitment. They were tested using specific combinations of policies and practices that are useful in predicting differences in performance and turnover. Commitment systems led to higher productivity, lower scrap rates and lower employee turnover than control systems. The relationship between turnover and manufacturing performance was moderated by human resource systems.

Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity. Does industry matter? *Academy of Management Journal, 46*, 135-145.

Little research has been conducted to support the growing interest in the contribution of human resource systems to organizational effectiveness. This study examines the effect of industry characteristics on the importance and value of high-performance work systems. Results suggest that industry capital intensity, growth and differentiation influence the impact of the human resource systems on productivity.

Gelade, G. A., & Ivery, M. (2003). The impact of human resource management and work climate on organizational performance. *Personnel Psychology, 56*, 383-404.

The relationships between human resource management, work climate and organizational performance in the branch network of a retail bank are examined. Previous research on group-level climate-performance and HRM-performance relationships is extended. The manner in which climate and HRM function as joint antecedents of business unit performance is examined. Work climate, human resource practices and business performance all have significant correlations. The common dependence on HRM factors cannot explain the correlations between climate and performance, according to study results, and work climate partially mediates the effects of HRM practices on business performance, as consistent with a mediation model.

Ichniowski, C., Shaw, K., & Prennushi, G. (1997). The effects of human resource management practices on productivity: A study of steel finishing lines. *The American Economic Review*, 87, 291-313.

The productivity effects of innovative employment practices were investigated using a sample from steel production lines. Lines that used innovative work practices, including incentive pay, teams, flexible job assignments, employment security and training, realize considerably higher levels of productivity than lines using the traditional approach that includes narrow job definitions, strict work rules, hourly pay and close supervision. These results are consistent with other recent theoretical models that stressed the importance of complementarities on work practices.

Jayaram, J., Droge, C., & Vickery, S. K. (1999). The impact of human resource management practices on manufacturing performance. *Journal of Operations Management*, *18*, 1-20.

Data from Big 3 suppliers were used to propose and test a human resource management analysis framework. Human resource management practices and manufacturing performance relationships are examined. The proposed framework suggesting that human resource management practices can be grouped into five distinct factors, four of them associated with specific competitive manufacturing dimensions of quality, flexibility, cost and time, was supported. These four HRM factors are significantly related to their manufacturing performance dimensions. The fifth HRM factor is generic.

Youndt, M. A., Snell, S. A., Dean, J. W., & Lepak, D. P. (1996). Human resource management, manufacturing strategy, and firm performance. *Academy of Management Journal*, *39*, 836-867.

The alternative views regarding the HR-performance relationship in manufacturing settings of universal and contingency are examined in this study. According to results, a contingency approach to human resource management is supported. While a human-capital-enhancement-focused HR system was directly related to multiple dimensions of operational performance (employee productivity, machine efficiency and customer alignment), further analysis showed this main effect was mainly the result of linking human-capital-enhancing HR systems together with a quality manufacturing strategy. The HR-performance relationship was also moderated by other manufacturing strategies.

HR STRATEGIES AND CUSTOMER OUTCOMES

Rogg, K. L., Schmidt, D. B., Shull, C., & Schmitt, N. (2001). Human resource practices, organizational climate, and customer satisfaction. *Journal of Management*, *27*, 431-449.

This study investigates the impact organizational climate has on the relationship between human resource practices and customer satisfaction in small businesses in the same industry. The hypothesized mediated relationship was supported by the results. The direct effects of HR practices on customer satisfaction were not significant and near zero; however, the indirect effects were significant and large. The results supported a social context model demonstrating the impact of human resource practices on organizational outcomes. Study limitations and future research implications are also discussed.

HR STRATEGIES AND FINANCIAL OUTCOMES

Bae, J., & Layler, J. J. (2000). Organizational and HRM strategies in Korea. Impact on firm performance in an emerging economy. *Academy of Management Journal, 43*, 502-517.

A model was developed and tested to examine the effects of organizational strategic variables, such as management values regarding human resource management and sources of competitive advantage. Companies whose scores suggested they valued HRM and people as a source of competitive advantage also had a higher probability of having high-involvement HRM strategies. Organizational strategic variables positively affected firm performance. Companies had better performance with high-involvement HRM strategies.

Becker, B., & Gerhart, B. (1996). The impact of human resource management on organizational performance: Progress and prospects. *Academy of Management Journal, 39*, 779-812.

The authors describe the reasons human resource management decisions influence organizational performance in an important and unique way. They hope research on the link between HRM and organizational performance will be advanced by this research forum. Key questions that have not been resolved are identified and suggestions are made that are intended to assist researchers who are investigating these questions to build a larger body of knowledge that will have implications in theory and practice.

Bhattacharya, M., Gibson, D. E., & Doty, D. H. (2005). The effects of flexibility in employee skills, employee behaviors, and human resource practices on firm performance. *Journal of Management, 31*, 622-640.

The authors believe that flexibility of employee skills, employee behaviors and HR practices is an important component of HR flexibility and is related to high firm performance. Perceptual measures of HR flexibility and accounting measures of firm performance were used to support their prediction. Skill flexibility was the only component that contributed to cost efficiency, while skill, behavior and HR practice flexibility were strongly associated with firm financial performance.

Combs, J., Youngmei, L., Hall, A., & Ketchen, D. (2006). How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance. *Personnel Psychology, 59*, 501-528.

Despite growing evidence that high-performance work practices (HPWPs) affect organizational performance, previous research has led to findings that vary, making it difficult to estimate the size of the overall effect. This study uses meta-analysis to estimate effect size as well as determine if the effects are larger for HPWP systems versus individual practices, operational versus financial performance measures, and manufacturing versus service organizations. Four suggestions are offered that intend to shape future research to answer questions that are emerging.

Delaney, J. T., & Huselid, M. A. (1996). The impact of human resource management practices on perceptions of organizational performance. *Academy of Management Journal, 39*, 949-970.

Positive associations were found between human resource management practices, such as training and staffing selectivity, and perceptual firm performance measures using the National Organizations Survey. Methodological issues for further consideration in examining the relationship between HRM systems and firm performance were suggested.

Delery, J. E., & Doty, D. H. (1996). Modes of theorizing in strategic human resource management: Tests of universalistic, contingency, and configurational performance predictions. *Academy of Management Journal, 39*, 802-836.

Many believe the field of strategic human resource management does not have a solid theoretical foundation. Strategic HRM literature uses three dominant modes of theorizing: universalistic, contingency and configurational perspectives, as described in this article. The authors identified seven key strategic human resource practices and developed theoretical arguments consistent with each perspective. According to the results, each perspective can be used to develop theoretical arguments that explain significant variations of financial performance.

Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal, 38*, 635-673.

The connection between high-performance work practice systems and firm performance is investigated in this study. HPWPs have a financial and statistically significant impact on both intermediate employee outcomes (turnover and productivity) and short- and long-term measures of corporate financial performance, according to results from a national sample. The impact of HPWPs on firm performance is partially contingent on interrelationships, and links with competitive strategy received limited support.

Snell, S. A., & Youndt, M. A. (1995). Human resource management and firm performance: Testing a contingency model of executive controls. *Journal of Management, 21*, 711-737.

The relationship between human resource management controls that executives use and the changes that occur in the financial performance of their firms was studied. Firm performance was higher when the approach to HRM was based on behavior control and executives had complete knowledge of cause-effect relations, according to the results. Output control HRM had neither a direct nor a moderating effect on firm performance. An HRM approach based on input control with ambiguous standards of desirability led to higher performance. Executives need to be aware of a number of unforeseen events that could influence their decision on their options of HRM and the effect these decisions will have on the firm performance, according to the findings of this study.

CAUSAL DIRECTION IN THE HR STRATEGY-PERFORMANCE RELATIONSHIP

Guest, D. E., Michie, J., Conway, N., & Sheehan, M. (2003). Human resource management and corporate performance in the UK. *British Journal of Industrial Relations, 41*, 291-314.

Objective and subjective performance measures and cross-sectional and longitudinal data were used to explore the relationship between HRM and performance. Lower labor turnover and higher profit per employee were found to be associated with the greater use of HRM, while higher productivity was not as determined by objective measures of performance. The association is not significant after controlling for prior year's performance. Subjective performance estimates suggest there is a strong association between HRM and productivity and financial performance. The association between HRM and performance was confirmed by this study, but it does not demonstrate that HRM causes higher performance.

Wright, P., Gardner, T., Moynihan, L., & Allen, M. (2005). The HR-performance relationship: Examining causal direction. *Personnel Psychology, 58*, 409-446.

This study examines the extent to which measures of HR practices and organizational commitment predict future performance more strongly than past performance predicts them. Using a sample of business units from a large food service firm, more than 3,000 employees in core jobs across over 40 business units reported the HR practices used in their jobs and their organizational commitment. These measures were related to past, simultaneous and future measures of operational and financial performance taken from company archives. The results indicated that both HR practice and commitment measures were strongly related to later unit performance. However, they were also strongly related to past performance, and when past or simultaneous performance measures were controlled for, the correlations between these measures and future performance were significantly reduced. These authors argue that their results do not prove reverse causation, but that they call into question the assumption that HR drives business performance.

LINKS BETWEEN HR STRATEGIES AND BUSINESS STRATEGIES

Arthur, J. B. (1992). The link between business strategy and industrial relations systems in American steel minimills. *Industrial & Labor Relations Review, 45*, 488-506.

The suggestion that variations in workplace industrial relations policies and practices are related to variations in business strategies is tested. Workplace industrial relations and business strategies among U.S. steel minimills were studied using a cluster analysis of questionnaire data. Findings suggest the industrial relations systems emphasize either cost reduction or employee commitment. The mills' business strategies appear to stress either manufacturing a large quantity of a few products at the lowest cost possible or a strategy that is more flexible based on factors other than cost. An important relationship between the workplace industrial relations systems type and the choice of business strategy in these mills was found after further investigation.

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