

**CHALLENGING (STRATEGIC) HUMAN RESOURCE MANAGEMENT THEORY:  
INTEGRATION OF RESOURCE-BASED APPROACHES AND NEW INSTITUTIONALISM**

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Abstract	To fully understand the relationship between human resource management and performance in different contexts, we are in need of a synthesis between resource-based theory and new institutionalism. We argue that differences in institutional settings (between for example countries or branches of industry) affect the shaping of HRM. In this paper we develop a conceptual model (human resource based theory of the firm) that will be illustrated by means of empirical evidence on macro, meso and micro level. The model enables to analyze the interaction between industrial relations and human resource management at different levels (international, national, branch of industry, company-level) and how that affects the shaping of HR policies in a specific company. In this way the paper broadens the present HRM and Performance debate by explicitly taking into account factors that are decisive in shaping HR policies. Factors like the product-market-technology dimension, administrative heritage, the social-cultural-legal dimension and the dominant coalition with its degree of leeway.	
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**Challenging (Strategic) Human Resource Management Theory:  
Integration of resource-based approaches and new institutionalism**

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## **1. Introduction**

This paper is both a theoretical and empirical exploration, aimed at creating opportunities for integrating resource-based theory of the firm and new institutionalism in the field of HRM. The ongoing debate on the added value of HRM has dominated the area of HRM for the last 7 years (since Huselid's article in *The Academy of Management Journal*, 1995). The resource-based view (RBV) is the dominant theory being used in the empirical literature on HRM and performance. One of the more fundamental discussions in this area is focused on 'best practices' versus 'best-fit practices' (e.g. Delery and Doty, 1996; Wood, 1999; Guest et al. 2001). We argue that differences in embeddedness, in institutional settings (between for example countries) affect the shaping of human resource management and the relationship between HRM and performance. To understand this phenomenon we are in need of additional theory. In this paper we develop a synthesis between the resource based view (RBV) and new institutionalism in order to create an approach (or conceptual model) for understanding HRM itself and its effects on performance in different institutional settings: the human resource based theory of the firm. This model will be illustrated by means of empirical evidence on (1) international/macro-level research (Pot, 1998), (2) sector/meso-level research (Schilstra, 1998), and (3) organizational/micro-level research (Boselie, 2002). With this 'multi-level approach' we hope to stimulate a theoretical/empirical discussion on SHRM. Our method can be applied to different institutional settings and at different levels of analysis (organization, branch of industry and country) and is able to demonstrate how different levels interact with respect to the shaping of HR policies/practices. Moreover, it explicitly links the field of industrial relations to the field of strategic human resource management, and is up-to-date in terms of current strategic management theory emphasizing co-evolution, blending 'Porter-like' *outside-in* with 'resource based' *inside-out* approaches into an interactive exchange of market forces, organizational characteristics and institutional settings.

## **2. Strategic HRM and Resource Based Theory**

Strategic human resource management (SHRM) has gained popularity over the past decade, specifically with respect to the debate on HRM and performance (see, for example, overviews of Delery and Doty, 1996; Guest, 1997; Paauwe and Richardson, 1997 and Boselie et al., 2001). According to Delery and Shaw (2001), there is general

agreement that "(1) human capital can be a source of competitive advantage, (2) that HRM practices have the most direct influence on the human capital of a firm, and (3) that the complex nature of HRM systems of practice can enhance the inimitability of the system." In spite of the fact that Wright and McMahan (1992) give a broad overview of theories (e.g. transaction cost theory, agency theory, resource dependence theory, behavioural theory and institutional theory) that fit HRM issues we find that the resource-based view perspective is one of the dominating theories in the debate on SHRM. In the resource-based view (e.g. Wernerfelt, 1984; Barney, 1991, 1995 and 2001; Grant, 1991; Lado and Wilson, 1994; Paauwe, 1994; Wright et al., 1994; Boxall, 1996; Flood et al., 1996; Mueller, 1996; Coff, 1997 and 1999; Barney and Wright, 1998; Boxall and Steeneveld, 1999; Boxall and Purcell, 2000; Wright et al., 2001) the emphasis is on gaining sustainable competitive advantage by means of effective and efficient utilisation of the resources of an organisation.

Resource-based theory caused a change in strategic management thinking from an *outside-in approach* to an *inside-out approach*. In this 'new' stream of thought, internal resources form the starting point of determining organisational success, in contrast to the 'old' paradigm of outside-in thinking. Authors like Paauwe (1994), Wright et al. (1994), Huselid (1995), Kamoche (1996), Boxall (1996) and Wright et al. (2001) specifically apply this theory to the field of human resource management and state that it is people that encompass the properties assumptions of *value*, *rareness*, *inimitability*, and *non-substitution*, – which according to Barney (1991) are the necessary conditions for organizational success.

According to Delery and Shaw (2001), the choice of the resource-based view (RBV) affords the researcher several advantages in investigating the strategic nature of HRM. The authors also acknowledge criticisms of the approach, particularly that the resource-based view does not meet the standards for a true theoretical perspective and contains several tautological elements (see Priem and Butler, 2001 for a more extensive overview). Based on our own experience, the RBV is more suitable in explaining competitive advantage, based on path dependency and administrative heritage, in retrospect. It is less useful in predicting under what circumstances the specific resources of a company will generate a sustainable competitive advantage. (Predictions that will lend themselves to be properly tested in an empirical setting).

Another criticism is that the inside-out perspective tends to neglect the importance of contextual factors, including the Porter-based factors (e.g. threat of market entry and threat of suppliers), as well as the institutional setting, which is particularly crucial from a HRM point of view. Hence, to fully understand (strategic) human resource management in, for example, different institutional settings, we need additional theory.

### **3. Different Institutional Settings**

Worldwide, organizations are confronted with different environmental constraints. These may be the result of fundamental differences between countries. Anglo-Saxon countries like the USA are known to be less institutionalised with respect to ‘the employment relationship’ – industrial relations and HRM issues – than Rhineland countries like Germany, France and the Netherlands<sup>1</sup>. Several of the well-known ‘best practices’ (Pfeffer, 1994) are institutionalised in Rhineland settings<sup>2</sup>. The differences between environmental constraints might also be caused by sectoral differences<sup>3</sup>.

Some European academics (e.g. Brewster, 1993) argue for a specific European IR/HRM model (as a counterpart of US approaches). The European academics subscribing to this stream (e.g. Keith Sisson<sup>4</sup>), implicitly assume that American approaches cannot be applied in European settings and that, therefore, each institutional setting requires its own (unique) IR/HRM model. However, we strongly believe that it is much more useful to try to develop a theoretical and analytical approach, like in the field of comparative industrial relations (e.g. Kochan et al, 1984; Poole, 1986) that suits, and can be adapted, to different institutional settings. Taking possible differences in organizational context into account implies that we need to

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<sup>1</sup> In the Dutch context, institutional mechanisms include the influence of social partners (the trade unions and works councils), labor legislation, and government [e.g. Wet op de ondernemingsraden (WOR: works councils' law), Arbeidsomstandighedenwet (ARBO: law on conditions of employment), Wet op de collectieve arbeidsovereenkomst (CAO: collective bargaining law), and Flex-wet (law on flexible employment and security)] and agreements between social partners and government at macro level about how to fight unemployment, how to reduce the number of people entitled to disability benefits etc.

<sup>2</sup> For example: the concept of ‘*employee benefits*’ is almost completely collectively arranged in the Netherlands.

<sup>3</sup> For example: traditional manufacturing organizations versus emerging knowledge intensive services organizations.

refine and supplement the RBV; a refinement, which can be found in new institutionalism (DiMaggio and Powell, 1983 and 1991; Scott and Meyer, 1994).

#### **4. New Institutionalism**

The idea that organizations are deeply embedded in wider institutional environments suggest, according to Powell (1998:301), that organizational practices are often either direct reflections of, or responses to, rules and structures built into their larger environments. In the beginning of the eighties, a group of USA based sociologists presented themselves as new institutionalists. Academics like Selznick, Meyer, Rowan, Scott, DiMaggio, Powell and Zucker can be considered as the founding fathers (and mother - Lynne Zucker). With respect to this paper, the contribution made by DiMaggio and Powell (1983) is extremely important. They state that rational actors make their organizations increasingly similar as they try to change them (homogenisation). The concept that best captures the process of homogenisation is isomorphism. *Isomorphism* is a constraining process that, say DiMaggio and Powell (1983), forces one unit in a population to resemble other units that face the same set of environmental conditions. There are two types of isomorphism: *competitive* and *institutional*. Competitive isomorphism assumes a system of rationality, which emphasises market competition, niche change, and fitness measures, and is most relevant where free and open competition exists. For a full understanding of organisational change DiMaggio and Powell (1983) focus on an alternative perspective: institutional isomorphism. Three institutional mechanisms are said to influence decision-making in organisations: *coercive mechanisms*, which stem from political influence and the problem of legitimacy; *mimetic mechanisms*, which result from standard responses to uncertainty; and *normative mechanisms*, which are associated with professionalization. Coercive influence results from both formal and informal pressures exerted by other organizations upon which they are dependent, as well as by strongly held cultural expectations in society at large. No wonder new institutionalism is linked to the resource dependency theory (e.g. Pfeffer and Salancik, 1978; Oliver, 1991; Zucker, 1991) and population ecology theory (e.g. Trist, 1977; Hannan and Freeman, 1977). According to Greenwood and Hinings (1996), new institutionalism assumes that organizations conform to contextual expectations in

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<sup>4</sup> Keith Sisson was one of the keynote speakers at the Dutch HRM Network Conference 2001 in

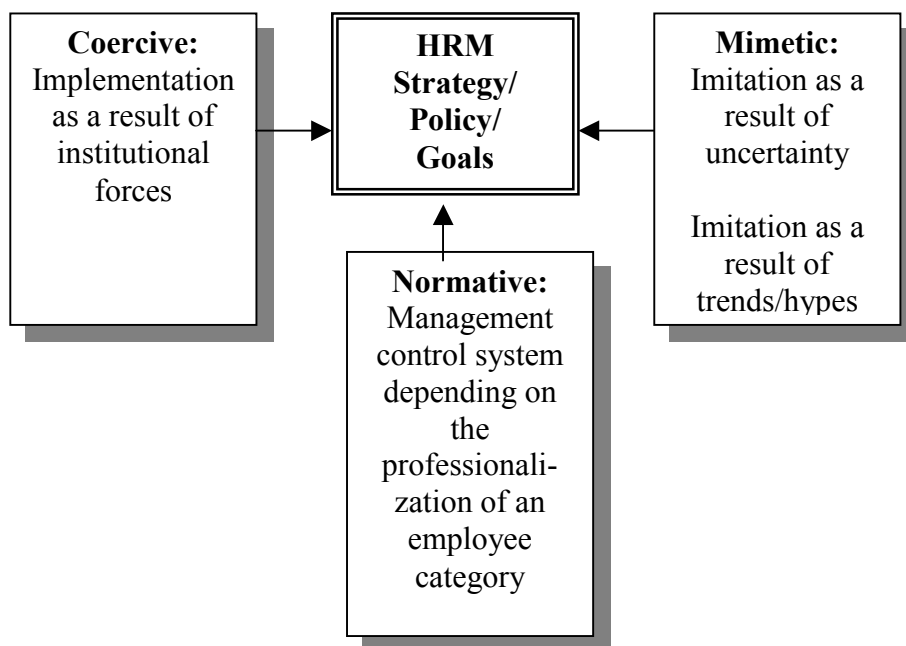
order to gain legitimacy and increase their probability of survival. In the 'Old Institutionalism' of the fifties, sixties and seventies, issues of influence, coalitions, and competing values were central, along with power and informal structures. In general then, institutional theory shows how the behaviour of organizations is a response not solely to market pressures, but also to institutional pressures (e.g. from regulatory agencies, such as the state and the professions, and from general social expectations and the actions of leading organizations (Greenwood and Hinings, 1996). Lammers *et al.* (2000) state that new institutionalism criticizes 'functionalistic contingency approaches' from the sixties, as the latter assume rationality of the actors. According to the authors new institutionalists underline the 'non-rationality' of processes on micro- (individual and organizational), meso- (branch of industry) and macro level (national/international) in society. The central theme in these approaches is the study of processes of cognitive and normative institutionalism, whereby people and organizations conform *without thinking* to social and cultural influences (Lammers *et al.*, 2000). Without thinking, in the sense that these normative influences are *taken for granted*: assumptions (Zucker, 1977) that actors perceive as being part of their objective reality.

Related to our field of enquiry (SHRM), coercive mechanisms include, amongst others, the influence of social partners (the trade unions and works councils), labour legislation, and government. Mimetic mechanisms refer to imitations of the strategies and practices of competitors as a result of uncertainty, or fashionable hypes in the field of management. The attention of organizations for the development and implementation of an HR Scorecard (e.g. Becker *et al.*, 2001) might turn out to be a typical example of mimetic mechanism in the field of HRM. Normative mechanisms refer to the relation between management policies and the background of employees in terms of educational level, job experience and networks for professional identification. Especially the latter is an important source of isomorphism, according to DiMaggio and Powell (1991). Professional networks are related to universities and professional training institutes, which are important centres for the development of (taken for granted) organisational norms among professional managers and their staff specialists in the different functional areas of finance, marketing, accounting and



HRM. For example, currently everybody emphasizes that HR should be business oriented and contribute to the process of adding value, whereas in the seventies – at least in the Netherlands – HRM was all about supporting organisational democracy. The acknowledgement of the importance of distinguishing between different employee groups in organizations can also be found in the work of Mintzberg (1979) on organizational structures and Snell (1992) on management control. In *figure 1*, we schematically give an overview of the way in which the three mechanisms, identified by DiMaggio and Powell (1991), have an impact upon SHRM.

*Figure 1* HRM and New Institutionalism



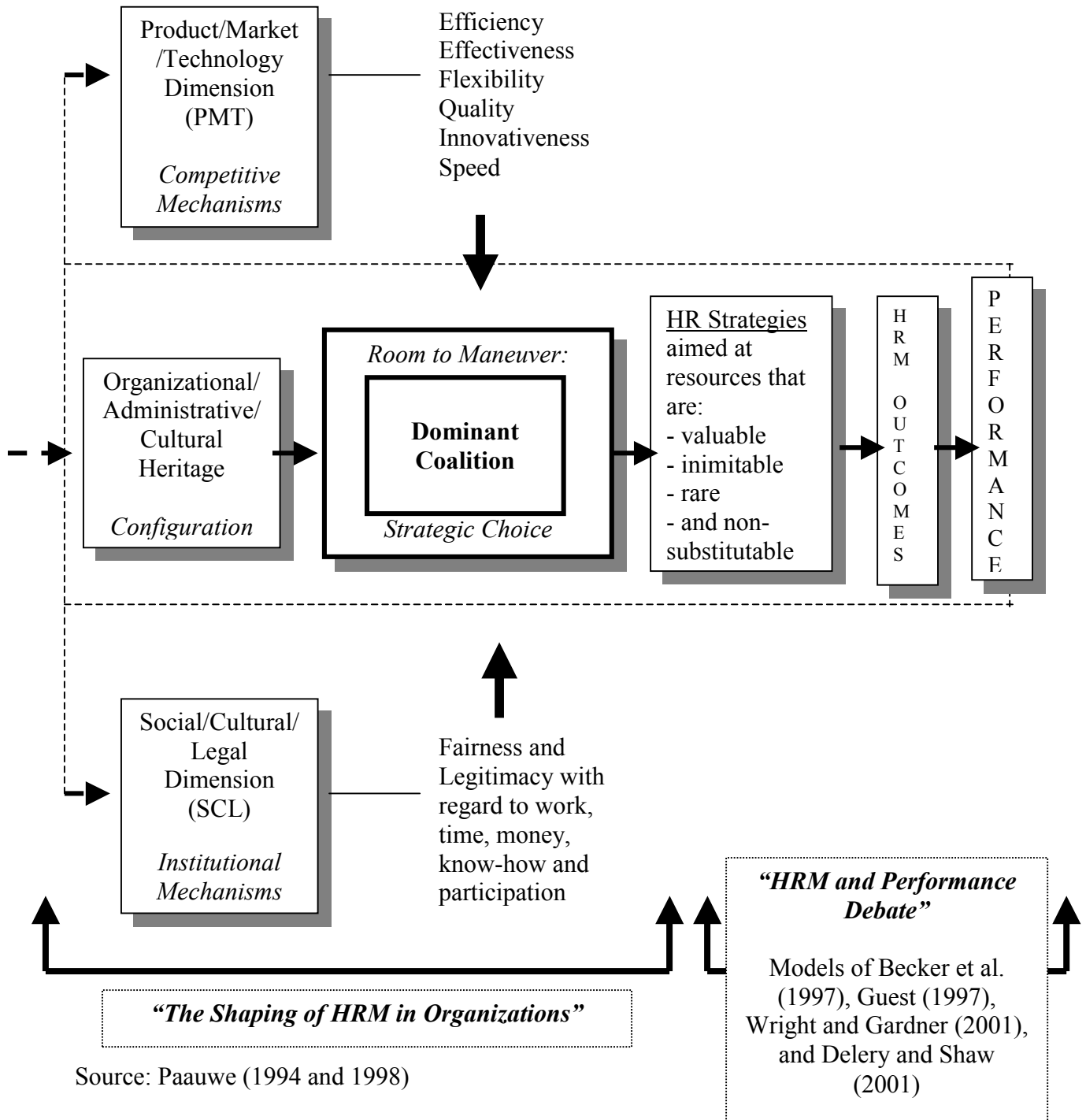
The integration of elements from both resource-based theory and institutional theory, reveals new insights with respect to, for example: the true nature of (strategic) human resource management; the underlying processes that shape HRM; the leeway of the dominant coalition with respect to HR policies within the company; the 'relational rationality' (in contrast to 'economic rationality'); and the external/contextual factors behind HR decision making. Our integrated perspective also offers an opportunity to include a more dynamic perspective and to analyse the role of HRM in a changing context (*see also* Purcell, 1999). We do not claim to be the first to align institutionalism to HRM issues. The work of Purcell (1999) and Hope-Hailey (2001) explicitly incorporates elements of an institutional framework as presented in this paper.

## **5. Human Resource-based Theory of the Firm: a conceptual model**

Wright *et al.* (1994) and Paauwe (1994) state that people encompass the general RBV assumptions of: value, rareness, inimitability, and non-substitution (see Barney, 1991). Wright *et al.* (1994), apply resource-based theory more specifically to strategic human resource management (HRM). Paauwe's human resource based theory of the firm (Paauwe, 1994) is represented in *figure 2*. This model incorporates elements of the contingency and configurational mode (Delery and Doty, 1996), institutionalism (DiMaggio and Powell, 1983), and is inspired by the Harvard approach (Beer et al., 1984).

In Paauwe's (1994) model, two dimensions in the environment more or less dominate the crafting of HRM, depending on the degree of leeway. On the one hand, HRM is determined to a certain degree by demands arising from relevant *product market combinations* and *the appropriate technology* (the P-M-T dimension). These demands are usually expressed in terms of criteria such as efficiency, effectiveness, flexibility, quality and innovativeness. This dimension represents the tough economic rationality of national and international competition. This domain resembles the concept of competitive isomorphism that, according to DiMaggio and Powell (1983), refers to a system's rationality in emphasizing market competition, niche change and fitness measures. In Weber's (1946) terminology, the prominent kind of rationality in this dimension (PMT) is 'zweckrationalität', based on criteria of efficiency and effectiveness.

Figure 2 The Human Resource Based Theory of the Firm



Source: Paauwe (1994 and 1998)

On the other hand it is important to emphasize that the so-called free market is embedded in *socio-political, cultural and legal context* (S-C-L dimension). Prevailing values and norms and their institutionalisation<sup>5</sup> channel and correct the outcomes of

<sup>5</sup> Institutionalisation is defined by Selznick (1957) as "...to be infused with value beyond the technical requirements of the task at hand". Scott (1992) defines it as "...the process by which actions are repeated and given similar meaning by self and others". Finally we quote Meyer et al (1987), who

market forces. In this dimension we recognize the concept of institutional isomorphism. For example, more or less widely shared societal values such as fairness (a fair balance in the exchange relationship between organisation and individual) and legitimacy (the acceptance of organizations in the wider society in which they operate) will also have an impact upon the shaping of HR policies and practices. Weber (1946) refers to this as ‘wertrationalität’. Paauwe (1994) prefers the concept of relational rationality, which refers to establishing sustainable and trustworthy relationships with both internal and external stakeholders (see the criteria of fairness and legitimacy). So, the model highlights the intrinsic tension in the shaping of HRM policies between economic rationality (added value, see the P-M-T dimension) on the one hand and relational rationality (moral values, see the S-C-L dimension) on the other.

In addition to these two dimensions, the historical grown configuration of a firm also has a bearing upon shaping and structuring HR policies and practices. These configurations may be looked upon as the outcome of past choices of strategy in interaction with the way in which structuring issues were originally posed and the kind of organisational culture this has engendered. Bartlett and Ghoshal (1989) use the concept of *administrative heritage* to identify the influence of structures, methods, competencies, values and so on, that originated in the past. They consider this heritage an important influential factor (for better or for worse) in continued organization structuring, including HRM. Barney (1991) outlines that one of the reasons why resources (among which human resources) are imperfectly imitable are *unique historical conditions*, elsewhere Barney (1995) refers to the concept of *path dependency*. All these writers refer to the unique configuration or ‘Gestalt’ of the organization. Delery and Doty (1996) distinguish the configurational approach, emphasizing a unique fit between HR-practices and -policies with other organisational characteristics (e.g. organisational structure, technical system, culture)<sup>6</sup>.

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define it as “... a process by which a given set of units and a pattern of activities come to be normatively and cognitively held in place and practically taken for granted as lawful.”

<sup>6</sup> For example: Rabobank and ABN-AMRO are two of the three largest banks in the Netherlands (together with ING). The fundamental differences in *structure of ownership* – Rabobank is a cooperation with members and ABN-AMRO is a limited company with shareholders – affected the choice for a specific performance related pay: a preference for a group reward system within Rabobank (linked to the cooperative culture of the firm) and a preference for an individual reward system within ABN-AMRO (linked to the shareholder driven strategy of the firm).

At first glance, our conceptual framework might give the impression of being based on general systems modelling. However, by the introduction of the so-called *dominant coalition*, this impression is corrected as it then also includes an actors' perspective, as well as an indication of the degree of leeway for shaping HR policies and –practices. Examples of important actors are top management, supervisory board, middle and lower management teams (dependent upon the unit of analysis), works council, shop stewards and, of course, the HR Department or HR manager. All of these actors have their own values, norms and attitudes, shared with others to a greater or lesser degree. In this respect, it is important to note that the interaction between the actors involved and their shared ideology *vis-à-vis* each other's position and role is an important element in creating understanding credibility. In contrast, a lack of shared ideology might result in tension and conflict.

The three forces that have an impact on the *dominant coalition* (PMT, SCL and configuration) do not imply that actors only adapt to market forces, administrative heritage or institutional setting. So, we do not adhere to a deterministic contingency perspective, on the contrary. The shaded area in *figure 2* represents the *degree of leeway/room for manoeuvre* for the dominant coalition in making their own strategic choices (Child, 1972). Conditions, which determine leeway, are for example labour-capital ratio, the financial health of the company (solvability), the rate of unionisation and market strategy. In the case of an organization with a market monopoly, for instance, the room to manoeuvring is obviously considerable. However, when the manufacturers are numerous, competition keen, and financial resilience is low there will be little room for structured HRM activities (Paauwe, 1991).

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Contrasting two temporary work agencies provides another example, related to the founding origin of the company. Start and Randstad are the two largest temporary work agencies in the Netherlands. Government, trade unions and employers' associations established Start to mediate for contingent workers with a backlog on the labor market. Start is a foundation and profits go to the foundation and welfare foundations. Randstad is a limited company with shareholders. The mission and historical background of Start (mediator for weaker employees) affects the type and nature of HR policies implemented. The HR policies within Randstad are more individually based (linked to the shareholder driven strategy of the firm) than the HR policies within Start (linked to the developmental strategy of the organization).

The dominant coalition is involved in shaping, selecting *HR policies and practices* for which different fits are available. Wood (1999) distinguishes four different fits, based on a review of the various authors in this area:

- 'strategic fit'<sup>7</sup>: the fit between HR strategies and the business or competitive strategy of the organization. In our model, this is the fit between P-M-T-dimension and HR strategies.

- 'organizational fit': the fit between a coherent sets of HR practices (HR systems/bundles) and other systems within the organization. In our model, this phenomenon represents the fit between administrative and cultural heritage and HR strategies.

- 'environmental fit': the fit between HR strategies and the organization's environment. In our model, represented by the fit between the S-C-L dimension and HR strategies.

- 'internal fit'<sup>8</sup>: the fit between HR practices as coherent and consistent bundles.

The dominant coalition is challenged to enable HRM to make a genuine contribution to sustainable competitive advantage, aside from the importance of distinguishing different fits. Aiming for uniqueness (unique approaches) can do this. The 'trade/exchange' between individual and the organization should be structured in such a way that we can speak of *uniqueness* in the company involved (the literature on the resource base theory of the firm - Mahoney and Pandian, 1992 – refers to the term 'heterogeneity') In other words, an arrangement between the individual and the organization that is *firm-specific*. This uniqueness is valuable, scarce, virtually inimitable, and difficult to replace in the short run (Barney, 1991).

The resource-based view focuses on the key success factors of individual firm behaviour to achieve firm-specific advantages by means of a portfolio of differential core skills and routines, coherence across skills, and unique proprietary know-how. Many of these core skills and routines are embedded in the attitudes and behaviours of the people employed or otherwise linked to the company<sup>9</sup>. Linking the resource-based

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<sup>7</sup> Also known as vertical fit.

<sup>8</sup> Also known as horizontal fit.

<sup>9</sup> A container shipment company in which all employees are given the opportunity to traverse all functions (10 functions listed from low to high), both in terms of the required training and the necessary practical experience. In this way the company achieves a unique optimisation of functional flexibility, which ensures an important and very likely decisive advantage in the area of flexible and

view to institutional theory can contribute to uniqueness by optimally blending environmental factors (which can be both an opportunity as well as a constraint) with internal resources and capabilities.

The unique shaping of HR strategies is aimed at generating HRM outcomes<sup>10</sup>, which in their turn contribute to the performance of the firm<sup>11</sup>(see models of Becker et al., 1997; Guest, 1997; Delery and Shaw, 2001). Paauwe and Richardson (1997) present a general framework, in which they distinguish the sequence of HR activities → HR outcomes → Firm performance. Their framework summarizes the empirical results of more than 30 different research projects. Of course their framework is far too general to be labelled a conceptual model. The proper question is how many boxes there should be between HR activities and the Performance of the firm<sup>12</sup> (Wright and Gardner, 2001). We refer to authors like Becker *et al.* (1997), Guest (1997), Wright and Gerhart (2001) and Delery and Shaw (2001) for a full overview of that discussion. See the Appendix for the models of Guest (1997) and Becker et al. (1997). It is important to emphasize that all of these conceptual models take HR Strategies and/or policies/practices as a starting point. Therefore, they only deal with the right hand side of our model. The very elements we emphasize are outlined in the left hand side of the model and these elements all have to do with the *shaping* of HRM. A process, which in itself has, of course, an effect upon the kind of outcomes it generates. Outcomes aimed at both achieving *economic rationality* (e.g. productivity, increasing shareholders value) as well as *relational rationality* (e.g. proper work-life balance which contributes to fairness or ecologically sound ways of producing avoiding depletion of natural resources and thus contributing to legitimacy).

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high-quality employee effort. As to the aspect of fairness: employee rewards reflect their qualifications, regardless of the actual function in which the employee is engaged.

10 HRM outcomes: e.g. like employee satisfaction, motivation, commitment, involvement, organisational citizenship, trust, social climate between workers and management, loyalty, retention (counterpart of employee turnover), and employee presence (counterpart of employee absence).

11 Performance of the firm: e.g. productivity, product/service quality, customer satisfaction, sales, market share, profits and market value.

<sup>12</sup> Kanfer (1994) and Guest (1997) argue that the distance between HR practices or systems and financial performance indicators (e.g. sales, profits and market value) is too large to make valid and reliable statements on (statistically) significant effects found in empirical research. Those significant relationships found in prior research might be an indication of 'reversed causality'.

## 6. A Multi-Level Approach

The proof of the pudding is in the eating. In the introductory section we made a number of claims with respect to the capabilities of the model. Based on a number of ongoing projects at the Human Resource Systems-Research Unit, Erasmus University Rotterdam, we can present data that explore the strengths and claims of our method of modelling. For example the level of comparing HRM systems in different countries (based on Pot, 1998, comparing chemical plants in both the USA and the Netherlands); in different branches of industry (contrasting high and low degrees of institutionalism) in the same country (Schilstra, 1998); and in different organisations in the same branch of industry (Boselie, forthcoming in 2002).

*Table 1 Overview Empirical Research*

<b>Level of Analysis:</b>	<b>Empirical data based on</b>	<b>Key issue</b>
International/ Macro-level (Pot, 1998)	Contrasting USA-based companies with their Dutch based counterparts case studies (n=8) in both the USA and the Netherlands	Embeddedness of HRM policies and –practices in different institutional settings: continuing divergence
Sector/ Meso-level (Schilstra, 1998)	Case-studies (n=15) in two branches of industry: Metal industry versus Computer industry	Nature of the regulatory network in branches that differ in degree of institutionalisation
Organizational/ Micro-level (Boselie, 2002)	Hotels, hospitals and local governments, based on both survey (n=132) and case studies (n=7)	The relationship between HRM and performance in different institutional settings

## 7. Empirical Findings

Sticking to a Dutch tradition, in which we focus more on the shaping of HRM than on its possible effects on performance, we present a summary<sup>13</sup> of data and research

<sup>13</sup> Based on the space limitations in this paper we will do that in a very concise format. In Paauwe, 2002/2003 forthcoming we will present the outcomes of these research projects in more detail. For a full report of the PhD projects we refer to Pot, 1998, Schilstra, 1998 and Boselie, 2002 (forthcoming).



outcomes, which will illustrate and support our type of theorizing in the preceding sections.

*7.1 Embeddedness of HRM in different institutional settings: Contrasting the USA and the Netherlands (Pot, 1998).*

The central thesis of this research project is the issue of whether globalisation has resulted in an increased tendency towards convergence in the field of HRM or whether that the enduring force of national culture sustains divergence in this area. Pot (1998) contrasts the USA and the Netherlands as two examples of on the one hand the typically Anglo Saxon model and on the other hand the Rhineland model. He focuses on four topics: work organisation, human resource flow, reward system and employee participation. His research design is set up in such a way that the differences in change processes among the companies can be meaningfully interpreted in terms of cultural differences between the two countries. Pot's research focuses on four chemical companies, of which the headquarters of two are based in the USA (GE and Dow Chemical), but also having subsidiaries in the Netherlands and the headquarters of the other two are based in the Netherlands (Akzo Nobel and DSM), but with subsidiaries in the United States. Thus, he is able to contrast different corporate policies facing the same global competitive challenges as well as implementation of policies in plants based in two different countries but belonging to the same company. These companies face the following global challenges (also emphasized in the so called 'best practice' management literature) during the nineties:

- The need to introduce de-layering, empowered teams and employee participation in order to transform the Tayloristic workplace organisation. This is especially of importance for the two USA firms.
- The need to introduce more flexibility in the employment relationship in order to fight increased international competition. This is especially of importance for the two Dutch based firms.

Since the fieldwork takes place in both the USA and the Netherlands Pot's study is able to analyse how the same policies from headquarters ("let's introduce empowered teams", "let's improve flexibility") are being implemented in plants on both sides of the ocean. If we only look at content we could conclude, that based on the influence of 'best practices' as prescribed in the popular management literature (mimetic

isomorphism), a process of reconfiguration is going on in both countries. Through a process of cross-cultural fertilization both countries adapt in each others' direction (USA: less hierarchical, more employee participation, more teamwork; NL: more numerical and external flexibility in the employment relationship). However, if we take a closer look than we can see major differences in the way these best practices are *defined* and *implemented*; differences that strengthen the continuation of institutional differences in the shaping of the employment relationships. For example, in a Dutch context, implementing teamwork refers to the cooperative relationship between multi- skilled team members who feel jointly responsible for a certain task, while teamwork in the USA refers to a lack of status differential between specialized team members. And as far as flexibility is concerned, introducing employability refers in the USA to a kind of hyper flexibility in which an employee rents his skill on an individual basis to an employer, whereas in the Netherlands the same concept refers to a strengthening of internal labour market mechanisms such as career development, training, internal vacancy filling, job rotation etc. With respect to implementation Pot notes remarkable differences on both sides of the Atlantic, even between plants that belong to the same holding company. Based on participative observation Pot is able to give an in-depth and lively description of what has been going on in these plants, while implementing the different change projects in the area of teamwork and flexibility. He draws the following conclusions:

*Planned versus emergent:* In the American plants, the change process is defined as a project with clearly defined objectives and a strict time schedule. Management defines the content in close cooperation with management consultants. In the Dutch plants, the change process is defined in process terms without an explicit formulation of the final objectives. Partners agree on the need for change, but the direction of change emerges during the process of interaction between management and employees and other stakeholders such as trade unions and works council.

*Time span:* In Dutch plants, the time span of the change process is consistently longer than that observed in American plants (i.e. a few years versus a few months)

*Interaction:* in Dutch plants, changes are effectuated by means of interaction between operators and management. In contrast, in the United States, the control and execution of change processes resides solely with management

The main difference, according to Pot, concerns the nature of interaction between management and subordinate members of the firm. The prevalence of managerial prerogatives seems to be a crucial part of the American related work culture. In contrast, the lack of authoritarian power of the manager is characteristic of the business culture in the Netherlands. The dominant business system and related institutional setting (like educational system, labour law, industrial relations system, but also informal norms and expectations) reproduce themselves in the way concepts and best practices are being defined and in the way they are being implemented. This implies a unique approach for every plant even if they have to obey the same orders and policy guidelines from headquarters. In their approach we also recognize the notions of *socially complex* and *causal ambiguity* as put forward by Barney (1991) in describing the elements that add to resources being difficult to imitate.

### *7.2 Regulating flexibility in 'traditional' versus 'emerging' branches of industry': A comparison of Metal versus ICT (Schilstra, 1998)*

Schilstra (1998) is interested in the factors that regulate the shaping of the employment relationship. What is the degree of leeway for human resource management amidst of the interests of the main stakeholders (both inside and outside the company) and institutional mechanisms like legislation and collective bargaining? The stakeholders with their interests and power resources constitute a so-called regulatory network. In the Netherlands those responsible for shaping the employment relationship are the personnel manager, the works council and representatives of trade unions and employers organizations at company, branch of industry level and national level. Schilstra distinguishes five characteristics of the regulatory network; i.e. the actors, their degree of shared trust/atmosphere, their strategy/targets, the (procedural and substantial) rules and finally their power resources (like skills and knowledge, financial leeway, membership, legitimacy and access to other actors with their resources). Related to the topic of introducing flexibility in the employment relationship he is especially interested in the balance between internal (partners inside the company) and external (actors outside the company, mainly operating at branch of industry level) regulation and its consequences in terms of outcomes. His research design contrasts two sectors (Metal and ICT), which differ substantially in their degree of institutionalisation. In each sector he carries out 6-7 case-studies. In total he

analyses 15 regulating networks: Two at branch of industry level (one Metal and one ICT industry) and 13 company level networks including their interaction –if present- with branch of industry level.

Both branches differ considerably in degree of institutionalisation. The Metal industry has full CBA coverage, ICT only 20%. Union density is about 30-40% in Metal and less than 10% in ICT. In the Metal industry the network of actors is intensive and encompassing multiple relationships both inside and outside company level, whereas in ICT the network is hardly present or limited to the relationship between management and works council. In Metal the union is the dominant partner for management and in ICT –due to a lack of presence of unions- the works council. Both internal and external regulation have their advantages from a management point of view. Internal regulation leaves much leeway for company-specific fine-tuning of the employment relationship. Putting a higher emphasis upon external regulation is supposed to reduce the cost of regulation and administration. However, does that compensate for the supposed lower responsiveness of external regulation? According to Schilstra (1998:282) many practitioners, politicians and academics believe it does not. However, his own research outcomes are contrary to that belief. His outcomes indicate that the external regulation of the employment relationship can be just as responsive to the individual company's objectives as internal collective regulation. Reaching consent among the different actors (both inside and outside the company) may be time consuming, but this drawback is offset by the relatively smooth implementation of adjusted regulation that results from its perceived legitimacy due to the representatives' involvement (Schilstra, 1998:283). Even the companies in the ICT prefer to negotiate with weakly represented trade unions instead of negotiating with their own works councils. In this way they prevent an inside-oriented politicising of human resource management and it provides them with a higher legal status of the agreement settled for with the unions. Opting for external regulation implies that the introduction of flexibility is determined in the arena of management (trying to adapt its HRM in concordance with its business strategy), works council and trade unions. So not only the P-M-T dimension is of importance but also the S-C-L dimension. The actual HRM policy aimed at improving flexibility can be labelled as a regulatory network decision/outcome and differs substantially from what management initially desired. The outcome is unique for every company, is dependent upon the specific

characteristics of the regulatory network, takes time to be settled for, but its outcome is high on legitimacy, acceptance and cooperation once implemented.

### *7.3 The Relationship between HRM and performance in Different Institutional Settings (Boselie, 2002)*

This study focuses on the effectiveness of HRM in a non-US/UK setting, more specifically the Netherlands. The object of research – the effectiveness of HRM – was studied at an organizational level. The author builds his conceptual model mainly on the resource-based view (e.g. Barney, 1991), control/commitment systems theory (e.g. Walton, 1985; Arthur, 1994) and new institutionalism (DiMaggio and Powell, 1983). Both quantitative (questionnaires) and qualitative analyses (case studies) were used to study the effects of HRM in organizations in different institutional settings. This analysis on organizational or micro-level was performed on data that stem from hospitals, local governments and hotels in the Netherlands. These empirical data led to the following main conclusions.

First, the variance or diversity of HRM is smaller in highly institutionalised branches of industry (hospitals and local governments) than in low institutionalised sectors (hotels). Trade union and works councils' influence, in combination with labour legislation (e.g. collective bargaining agreements on sectoral level), affect the shaping of HRM: more precisely the dominant coalition's room to manoeuvre. HRM in hospitals and local governments in the Netherlands is mainly determined by institutional mechanisms (S-C-L dimension in our model) in contrast to Dutch hotels, which are mainly (externally) influenced by competitive mechanisms (P-M-T dimension in our model). Second, there are no 'brute' forms of HR control system (e.g. Arthur, 1994) in any one of the three branches of industry, presumably as a result of national labour legislation. There appears to be much attention for HR practices such as decentralization, employee participation and training. Employee benefits and wages are institutionalised (determined by CBA's) and performance related pay is rare in these organizations. Third, the HR systems in hotels appear to be more advanced than the HR systems in hospitals and local governments. Up till 2001, hotels in the Netherlands were in the luxurious position of market growth combined with room scarcity (demand was larger than the supply side). This meant little

competition between hotels with respect to customers, thus more leeway for HRM (more room to manoeuvre for the dominant coalition with respect to HRM).

Fourth, the unique configuration of each organization and its impact on HRM became clear in the case study analyses. One of the hospitals in the case study analysis appeared to be 'leading' in management styles and HRM more specifically. The proactive entrepreneurial management philosophy of the organization, specialized in ophthalmology, was caused by the external threat of a merger with a larger hospital in the same region. The necessity to continuously demonstrate the legitimacy of independent existence became a management philosophy, deeply rooted in the norms and values of the organization, the last 10 years. Another example of the uniqueness of an organization's configurations was found in case study analysis on Dutch hotels. The three hotels in the case study were all part of one parent company. This parent company consists of 26 hotels in the higher market segment of the Netherlands (four and five stars). The majority of these hotels are former castles, Châteaux or Villa's. Because of the luxurious location and beautiful setting, these hotels exude the atmosphere of a fairy tale, an image that not only attracts customers but also (potential) employees. The Regal atmosphere of these hotels affects the management of people (HRM) and creates a unique configuration. Boselie's (2002) study on organizational level provides sufficient empirical evidence for the impact of competitive mechanisms (P-M-T dimension), institutional mechanisms (S-C-L dimension) and organizational/administrative/ cultural heritage (configuration), the possibilities or room to manoeuvre of the dominant coalition with respect to HRM.

## **8. Discussion**

In due course (Paauwe, forthcoming) we will provide a more extensive treatment of empirical evidence based on the model outlined in the preceding sections. The present paper has its space limitations in this respect. However, the short indication of empirics, based on Pot (1998), Schilstra (1998) and Boselie (2002), provides us with a good illustration of the relevance of the two dimensions that impact on the shaping of HR-strategies. In their interaction both Product-Market-Technology dimension and Social-Cultural and Legal dimension are to a large degree determinative in shaping HR Strategies. We deliberately use the phrase '*to a large degree*' because of the fact that firstly the administrative heritage exerts an influence that adds to the uniqueness

of the chosen strategies and secondly there is still some leeway, some room for manoeuvre<sup>14</sup>. This poses the question whether the dominant coalition indeed uses that leeway to optimise its human resource management in order to meet the criteria of the RBV (valuable, rare, difficult to imitate, difficult to replace). Both our survey and case-study evidence is not very conclusive on this. Based on an actors' perspective the leeway can be used to develop HR strategies that meet the requirements of the RBV. Combining the various dimensions and taking account your own administrative heritage can result in a unique competitive advantage. Elsewhere we have provided case-study based evidence (Paauwe, 1998), but – referring to Mirvis' (1997) leaders and laggards – it can also be very well the case that the dominant coalition perceives the institutional context as only prohibitive in the shaping of HR strategies and does not at all contribute to a sustained competitive advantage. Anyhow, our way of modelling offers possibilities for analysing the underlying processes and the perceptions of actors in the shaping of HR policies and practices. Next to the omnipresence of added value and performance oriented approaches in the field of SHRM our model offers a more 'verstehende' approach and deliberately includes the interpretation of meanings and perceptions of the actors (Zilber, 2002) with their attitudes and values who together make up the dominant coalition.

### *Building bridges*

Our model can be applied in different institutional setting on both sides of the Atlantic and elsewhere. This implies a broadening of the so-called 'fit' discussion. Up till now the discussion is quite strongly focussed on the universalistic nature of best practices (for which a lot of empirical evidence exists) versus a 'best fit' approach. Our model as such is universalistic as well but *not with respect to content* (so it does not include any best practices, apart from the requirements that are intrinsically linked to a RBV). It's universalistic in outlining the conditions, factors and actors that influence the process of shaping HR policies and practices, which (can) contribute to achieving a best fit for HRM in order to contribute to a sustained competitive advantage. The best fit –once realized- blends in an optimal way both the requirements of the P-M-T dimension and the S-C-L dimension and administrative heritage into a unique configuration for every organisation, which is difficult to imitate.

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<sup>14</sup> An overview of the conditions that determine the degree of leeway can be found in Paauwe, 1991

Another important feature is the linkage and interaction between various levels of analysis. Taking into account the institutional context not only allows for making comparisons between countries (see Pot, 1998) and between branches of industry (see Schilstra, 1998), but also allows for analysing the interaction between national, branch of industry and company level and how that affects the shaping of HR policies in a specific company. In this way the field of industrial/employment relations and HRM are interconnected. Too often we see in academia a distinction between HRM and Industrial relations, which can only be labelled as artificial and the mere result of segregation in the social sciences.

Finally we note that institutional theory has often been criticized as largely being used to explain the persistence and the homogeneity of phenomena (Dacin *et al.*, 2002:45). However, several researchers (e.g. Oliver, 1991; Dacin, 1997; Hope-Haley, 2001; Kraatz and Moore, 2002; Sherer and Lee, 2002; Townley, 2002, Zilber, 2002) have convincingly demonstrated -either theoretically or in an empirical way- that the institutional perspective is perfectly capable of accounting for change. Our own summary of empirical findings provides evidence of a dynamic interplay between institutional change and the kind of responses, interpretations and pressures experienced by the actors. (f.e. in Pot's study the need to adapt to best practices in order to fight increased global competition). So we are optimistic about the kind of analyses and research issues we can explore and tackle, based on the to above described blending of institutional theory and RBV in the area of HRM.

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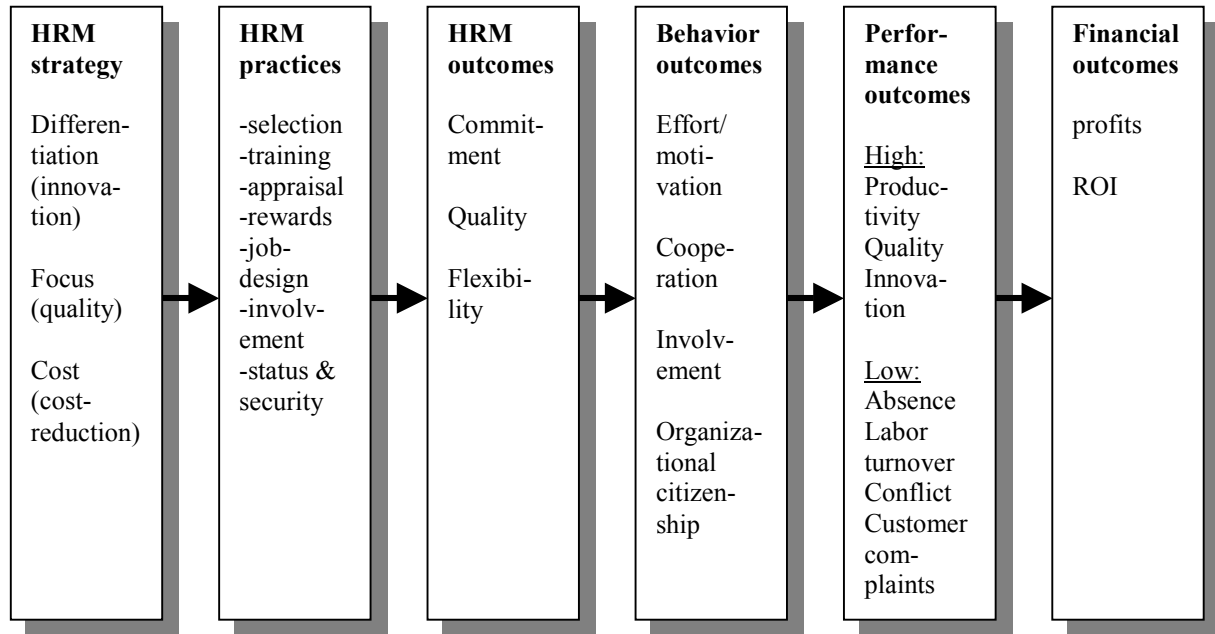
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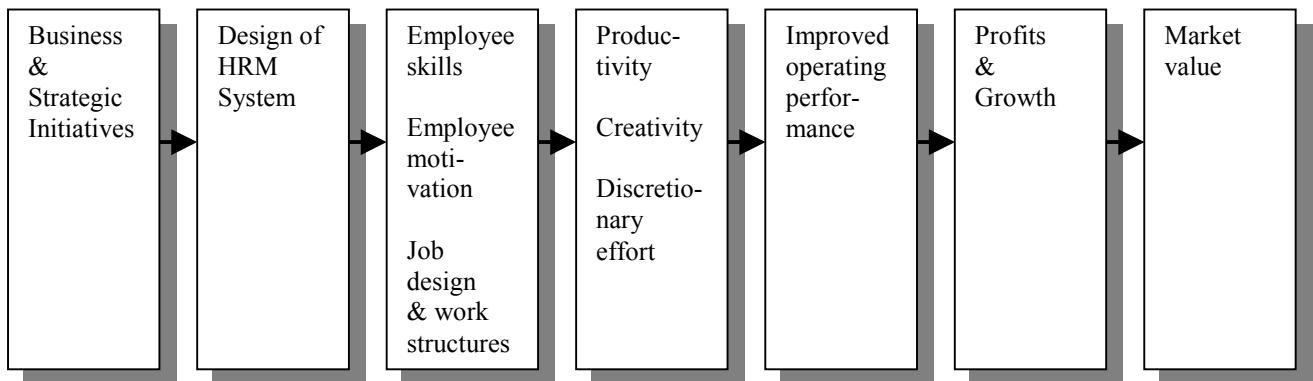
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## Appendix

### *Model Guest (1997)*



### *Model Becker, Huselid, Pickus and Spratt (1997)*



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