

Human Resource Management and Organisational Performance

*Does HRM lead to improved organisational
performance?*

Cathrine Byremo



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Department of Sociology and Human Geography
Faculty of Social Sciences

UNIVERSITY OF OSLO

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Summary

Human Resource Management (HRM) has grown very popular over the past decades, and it is now a common characteristic for nearly all larger companies and many smaller ones. One of the reasons for this popularity is the assumption that HRM is a source for competitive advantage and will influence the organisational results and performance in a positive direction. The thesis takes a closer look at the presumed relationship between HRM and performance. The main idea behind the HRM-performance presumption is that HR practices affect the employees' attitudes and behaviour, which further affects the operational performance, such as productivity, quality and innovation, which in turn have a positive effect on the financial and market performance. A large amount of empirical evidence support such a positive relationship between HRM and organisational performance. However, there are also critics commenting on the research field's methodological limitations. Because of these methodological limitations the empirical evidence for a positive link is weakened. These limitations include: number of respondents and their role in the organisation, research design, analysis execution and interpretation, and a lack of attention to influencing variables and the possibility of a reversed relationship. The research field suffers especially from a lack of longitudinal designs and the fact that nearly all research is of a quantitative nature. In addition, some studies have found evidence indicating that the possible gains achieved through HRM can be offset by the costs related to it. Further, some researchers argue that HRM does not exclusively affect the employees in a positive way. In fact, some empirical evidence has shown that HRM can affect the employees negatively; this includes increased work intensity, stress, burn out, and ripple effects from work into private life. Through a discussion of the above-mentioned evidence, factors, and elements, the thesis concludes that it is still too early to say that HRM *causes* improved performance. However, the amount of empirical evidence of a positive relationship also leads this thesis to conclude that HRM *can* have a positive impact on performance.

Acknowledgements

I appreciate the knowledge and diversity that the master's programme in organisation, leadership and work has given me the opportunity to acquire and experience. Exploring the world of organisation, leadership and work through an interdisciplinary approach has increased my understanding of the complexity that exists. Prior to starting this master's programme my educational experience was organisational psychology, which has provided me with a good understanding of the individuals working in organisations and their behaviour. However, being able to see this in relation to other elements such as organisational structure, society, industrial and technological developments, laws and regulations, and rhetoric and communication, has increased my interest in exploring how all these things are connected and how they things affect each other. This led me to into the research field of HRM and performance. I was interested in understanding what effects an organisational feature such as HRM can have. At first glance, the research field depicted a body of research showing that HRM is positively related to organisational performance. At this point, it looked as if my thesis was going to be investigating all the different effects that HRM has been showed to have. However, as I continued exploring the research field, I noticed that a number of things could challenge the apparent relationship between HRM and performance; this led me to a research question of causality rather than one concerning the effects as if the relationship had already been determined to exist.

It has been an interesting journey since it started nearly three years ago. I have been blessed with a wonderful daughter, which has caused much joy and encouragement. I am very thankful for my husband's patience and support, and for all the sacrifices he has made to help me reach my goal. During this time, I have also myself become an employee both experiencing and carrying out HRM every Monday to Friday. Through my work I have learned that implementing and executing HRM is more complicated than much of the research seem to portray. I would like to thank Heidi, for her support and warmth, and for being the best manager a panicking master student could ask for. Finally, I would like to thank my supervisor, Thomas Hoff, for providing me with good guidance and quick replies, although I know I have not made it too easy.

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1 Introduction

In order to secure viability and growth, a crucial goal for any organisation is to perform well and achieve good results. There can be many means to achieve this, and one possibility is to manage the organisation's *human resources* in such a way that they give rise to increased performance and improved organisational results. Organisations have increasingly acknowledged the fact that the company's human resources are valuable and can be a unique source for competitive advantage. As Barney (1991) notes, the people working in organisations can be a source for competitive advantage unlike any other resource, in the way that they can be rare and hard to imitate by competitors. We now see nearly all larger companies having departments and employees exclusively dedicated to the management of their human resources. In addition, we can also observe a more extensive involvement of the HR function in the organisational strategic planning. Human Resource Management (HRM) has increasingly become a strategic contributor that, in principle, could add significant value to the organisations.

1.1 The Assumption

The idea behind the assumption that HRM significantly contributes to organisational results is that the HR practices affects the employees in a positive matter, e.g. by increasing job satisfaction and motivation, which in turn affects the operational results, such as the quantity and quality of the products and services, which again will have positive effect on the financial and market performance of a company, like return on assets, revenue, and market share (Pauwe and Richardson, 1997) .

This presumed connection between HRM and organisational performance has received much support from empirical research, where they have investigated both systems of HR practices and single practices' effects on organisational performance. These systems of HR practices are also known as High Performance Work Systems (HPWS), High Commitment Work Systems (HCWS), or High Involvement Work Systems (HIWS). These systems are believed to consist of several coherent and reinforcing HR practices, which together support each other in creating more committed, motivated, satisfied and skilled employees, which in turn has a positive effect on the overall performance of the organisation. Included in these systems are

practices such as selection and recruitment, training and development, performance appraisals, performance-based compensation, and other practices like extensive information sharing, job security, welfare benefits and grievance systems. The idea is logical and appealing in itself: you recruit employees who are believed to perform well in the organisation, you praise and reward the employees who meet or exceeds your expectations, you train and develop the employees to perform even better; and in between these more strategic practices the employees experience safety, inclusion, and commitment through other HR practices and policies, which creates a healthy work environment that reduces absenteeism and make the employees want to stay with your company.

1.2 The Research Question

Although the HRM-performance assumption is both reasonable, possible and appealing, the majority of research seem to depict a reality where companies can simply implement HR practices or systems of HR practices and they will automatically achieve greater success. The research question for this master thesis is whether there exist such a causal link between HRM and performance. Can companies simply add HRM into their organisational equation and receive increased performance in return?

On the flip side, there are also many companies where HR practitioners experience a constant battle legitimating and justifying the HRM investments and their strategic contribution. The return on investing in HRM is not as obvious as the return on many other investments, such as new production machinery or new technology. For many CEOs, it can be very easy to undermine and discard HRM based on both the lack of visible and measurable effects and the obvious visibility and measurability of the costs.

The objective of the thesis is to shed light on the relationship between HRM and performance and to answer the question of whether there actually is a causal and positive link between the two. This will be carried out through a literature review of existing evidence.

1.3 Demarcation and Outline

The research field of HRM and performance is vast, and there are a number of minor research fields and debatable issues and themes concerning HRM's nature and possible effects. Based

on the research question of causality, the thesis focus mainly on research that help us reveal or explain any possible causal relationship. The thesis will therefore not go into detail on topics such as the normative versus descriptive nature of HRM, its effects on unionisation, or the role of line managers in executing the HR practices.

The thesis starts with a historical and theoretical outline of the concept of HRM, followed by the research field and an overview of supporting evidence. The research discussed here is not an exhaustive review of literature on HRM-performance, but rather a selection based on an attempt to cover all the aspects of the assumed relationship, and to show the time-lapse of HRM-performance research. It will further discuss the link between HRM and performance, shedding a light on the methodological approaches and critical findings. Lastly, the thesis will look at the limitations and opportunities for both the research field and for organisations and practitioners.

2 Historical and Theoretical Outline

2.1 From Personnel Administration to Human Resource Management.

We can trace the origins of HRM all the way back to Frederick Taylor and Scientific Management. Taylor's (1911) accounts for his experiments and ways of ensuring and increasing effectiveness are similar to what we now know as job analysis, selection, training, and motivation through compensation. From the early steps of Frederick Taylor, HRM came to be through influences from industrial psychology, industrial sociology and labour economics theory (Mahoney & Deckop, 1986). The Hawthorne studies of the 1930s further induced the interest in how to make the jobs and work place motivational and how to enhance employee commitment. During the era of Industrial Relations, the organisational activities centred on people and employees were grouped together under the name of Personnel Administration (PA). Here, each activity had a clear objective based on one specific theoretical model tied to a distinct problem; however, the overall objective of PA was yet to be stated. Further down the line, there was a shift in focus that generated the shift from PA to HRM. The object of understanding and achievement was no longer individual job performance but rather the overall organisational effectiveness. In the 1960s, both scholarship and practice shifted from design and administration of activities to managing a workforce for the accomplishment of organisational objectives. The shift in terms, from PA to HRM, signified a new way of thinking about the employees; they were now considered to be resources in an employing organisation which needed to be managed jointly with other resources in order to achieve organisational effectiveness (Mahoney & Deckop, 1986). In addition, one began to see a more strategic view of the activities or practices as a whole, the overall objective of PA/HRM became more noticeable and was guided towards organisational effectiveness. Previously PA consisted of activities that were considered solutions to various but specific problems, like turnover, absenteeism, and job satisfaction. However, developments in the 1980s shifted the focus from problem solving to assessment of organisational outcomes. There was an increased focus on translating traditional HR measures such as turnover, job performance, and training effectiveness into organisational relevant measures of cost and profit – thus relating HRM to organisational results. This new way of

thinking about the management of the organisations' employees signifies the birth of a new research field, a research field focused on uncovering the potential of HRM.

In 1987, Guest introduced HRM as a new approach to personnel management, where it differentiated itself from more traditional ways of managing employees. This included greater involvement of line-managers and a strategic alignment with the company as a whole. Further, Guest emphasised HRM's contribution to flexibility, quality and employee commitment, which in turn would influence employee absence, turnover and work performance in a positive matter. This presumption was soon acknowledged by both practitioners and academics, contributing to the explosion of research and the renaming of employment positions and departments that followed. However, much of the interest in systems of HR practices such as HPWS stems from the rise of Japanese high-quality production systems in the 1970s and 1980s (Boxall & Purcell, 2003). Faced with competitors who were simultaneously raising product quality, reducing production costs, and improving rates of innovation, some elements of western manufacturing simply disappeared, while others soon learnt that they could not rely solely on their marketing skills (Boxall & Macky, 2007). In order to survive they had to change and seek new ways of achieving competitive advantage. This included an increased focus on their internal operations, and adopting the Japanese lean principles. This meant moving away from the low-discretion, control-focused work systems associated with Fordist operations management towards work systems that increased involvement of production workers and raised skills and incentives (Boxall & Macky, 2007; MacDuffie, 1995).

2.2 Soft and Hard – Commitment and Control

When HRM was introduced in the 1980s, a distinction was made between soft and hard models of HRM. The hard version, often referred to as the Michigan approach (Fombrun et al. 1984), is characterised by an instrumental view on its employees, and place great emphasis on the maximal utilisation of them in a virtually calculating manner. On the other hand, the soft version of HRM, often referred to as the Harvard approach (Beer et al., 1985), is characterised by a more human approach to the employees, where the focus lies on developing the employees' potential and resources in the best interest of both the employer and the employees. In addition to enhance in the employees' skills and abilities, the HR practices within this soft approach aims at creating committed and involved employees with strong

psychological ties to the organisations. Most of the research on HRM-performance has focused on a soft HRM approach as outlined below.

We find the contrast between a soft, developmental approach, and a hard, utilising approach in Walton's (1985) distinction between commitment strategies and control strategies in personnel management. Arthur (1992) was one of the first to apply Walton's suggestion to make a distinction between high commitment and direct control within the research field of HRM. In his study, he found several different HR systems in the steel mills that he investigated which he further categorised into two separate types of systems: one that was characterised by control and the other by commitment. Arthur (1992) noted that the control systems were characterised by a focus on efficiency and costs, where the lowering of direct pay costs was the central issue. The HR system oriented towards commitment, on the other hand, was characterised by an effort to develop psychological ties between the employees and the organisation through training and development, empowerment and a competitive fixed pay. Subsequent studies have observed, designed, and applied HR systems, which more or less resemble Arthur's commitment HR system. These HR systems, as mentioned previously, have been named High Performance Work Systems (HPWS), High Involvement Work Systems (HIWS), and High Commitment Work Systems (HCWS). What is common for these HR systems, is that they all comprise of practices and activities aimed at generating motivated and committed employees by getting them involved and engaged in the organisation they work for. They are aimed at eliciting a commitment so that behaviour is primarily self-regulated rather than controlled by sanctions or other external pressure (Wood, 1996). These systems usually incorporate some form of performance related pay, which stands in contrast to Arthur's (1992) original commitment based systems. However, one of the main ideas is still to enhance the attitudes and behaviour of employees in order to improve the performance. In a qualitative attempt to get a grip on what characterises commitment based HRM and how the employees experience it, Lowe and Oliver (1991) explored the HR practices/cultures of two companies known to be so-called high commitment organisations. They observed characteristics such as informality, decentralisation and empowerment, teamwork, extensive recruitment and selection procedures, and two-way communication.

When investigating the link between HRM and organisational performance, this soft commitment approach has received the most attention by far. The human resources of an organisation can be managed in a number of ways depending on what the HR practices in an organisation are. Huang (2001) investigated the effects of combining various business

strategies with different HRM strategies. The study included Utilisation HRM strategy, characterised by external recruitment based on new employees' ability to start their work immediately, minimising the training expenses, definite job content focused on specialisation, short-term performance evaluations, and salaries based on external equity with very few monetary incentive systems. This Utilisation HRM strategy can be considered a harder version of HRM. The evidence suggested that a Facilitating HRM strategy, characterised by a willingness to fill job vacancies internally, adopt multiple methods of promotion, broad career paths, attention to employee training and development, together with internal pay equity and several types of employee incentives, turned out to be the best strategy for any organisation, independent of their business strategy. This Facilitation HRM strategy is consistent with a soft approach and resembles HPWS to a large extent. As the thesis proceeds, and unless otherwise is stated, it is this soft approach to HRM that is referred to when speaking of HRM.

2.3 Theories and Perspectives on the HRM-Performance Link

The possible link between HRM and performance has been interpreted and explained through numerous perspectives and theories. In this section, we outline some of the predominant ones, although this is not an exhaustive summary.

2.3.1 Universalistic perspective

Some claim that there is a universalistic link between HRM and performance, where some HR practices or systems of HR practices give way for increased organisational performance across the population of organisations and under all circumstances. Pfeffer's (1998) seven practices is an example of this view, where he holds that employment security, selective hiring, self-managed teams and decentralization of decision-making, high contingency pay, extensive training, reducing status distinctions and barriers, and extensive sharing of information all will have a positive influence on organisational performance independent of organisation and other conditions. Essentially, scientists holding this view believe that it is not necessary to adapt the HR practices in accordance with any particular strategy or to any specific organisational context (Lengnick-Hall et al., 2009).

2.3.2 Contingency perspective

In contrast to the universalistic perspective, scientists holding a contingency perspective argue that the relationship between the relevant independent variables and the dependent variables will vary across different levels of contingency variables. The organisation's business strategy is considered perhaps the most important contingent factor within the HRM-performance literature. The various HR activities that the organisation carries out must be aligned with the organisation's business strategy, or other contingencies, in order to have an effective impact on performance according to this view (Delery and Doty, 1996).

2.3.3 Configuration perspective

In the configuration perspective, the focus lies on the synergistic effects that the HR practices can create when they are grouped together and exercised in a coherent manner. It is argued that the total effect that can be achieved is far greater than the sum of the effects for every single practice. In accordance with this view, Ichniowski and colleagues (1997) found that systems of innovative HR practices had a significant impact on production workers' performance, whilst changes in individual practices showed small to non-existing effects.

The above-mentioned perspectives dominated the early days of the HRM-performance field. Delery & Doty (1996) investigated the three, and found evidence supporting both the universalistic perspective and the contingency perspective. However, even though evidence supporting the configuration perspective was present, it was notably smaller compared to the other two perspectives.

2.3.4 Resource Based View of the firm

The Resource Based View of the firm (RBV) has also been applied to the HRM-performance link. RBV is a general way of theorising about how competitive advantage can be achieved through the possession of valuable and rare resources that are hard to imitate by other competitors (Takeuchi et al., 2007). When applied to the HRM-performance link, one is to consider the employees as a resource similar to other organisational resources, where the main goal for the HR practices is to build up the human capital and stimulate the kind of behaviour that creates advantages for the organisation (Boxall og Steeneveld, 1999).

2.3.5 AMO theory and KSA theory

Another theory that has gained much support lately is AMO theory. The idea is that HR practices influencing the employees Abilities, Motivation and Opportunity to participate are the practices that will have an impact on organisational performance. This is very similar to what some researchers call KSA theory (e.g. Huselid, 1995). It is advocated that the use of HR practices that 1) increase the employees' knowledge, skills, and abilities (KSAs), 2) motivate employees to leverage their KSAs, and, 3) empowering the employees to do so, will consistently create growth and prosper for its organisations.

2.3.6 Other theories on an individual level

In addition to perspectives and theories concerning the HR practices and how to view the HRM potential, there also exist theories that are more specific. These are located at an individual level and have been applied to the HRM-performance link often related to attempts at explaining the potential link. Examples of such theories are *social exchange theory* (Takeuchi et al., 2007), *psychological contracts* (Guest, 1999) and *job characteristics theory* (Snape & Redman, 2010). When applying social exchange theory to the link between HRM and performance, the proposed idea is that organisations that invest in their employees, will experience employees reciprocating these investment with efforts directed towards the organisations' benefit and interest. This is somewhat similar to the way of theorising about psychological contracts and HRM-performance. Here, HRM is believed to contribute to a strong psychological contract between the employer and the employee, with reciprocating characteristics and expectations. According to job characteristics theory the core characteristic of autonomy/discretion produces a "critical psychological state" of experienced responsibility for the work, which in turn leads to improved work effectiveness (Hackman and Oldham, 1980; in Snape and Redman, 2010 p. 1221). For example, many HR practices, such as those focused on building employee skills and abilities, empowering the employees, and involving the employees, may contribute to increase the level of discretion employees have in their role.

3 Researching HRM and Performance

One could say that the real birth of the research field of HRM-performance came in the 1990's. The amount of research exploded, and where previous work had mainly focused on single HR practices effects, it now became more widespread to investigate HRM as a unified concept comprised of several practices, and what effects these practices together as a system could have on an organisation.

3.1 Human Resource Management

There seems to be no clear-cut theory or common understanding of exactly what HRM comprises of (Boselie et al., 2005), and the HR practices that are included in the studies examining the link between HRM and performance varies in both in number and type. Some choose to include only a few practices; others include more than ten practices. Thus, there are also great discrepancies between the types of HR practices that are included for each study, although we see many of them recurring quite often. The typical HR practices that have been investigated are recruitment and selection, training and development, performance appraisals, performance related incentives, internal career paths, job security, benefits, grievance systems, empowerment, and information sharing (Boselie et al., 2005; Paauwe & Richardson, 1997).

3.2 Organisational Performance

We have seen that there are a number of different HR practices that are frequently repeated throughout the HRM-performance research. However, what types of performance that these HR practices, or systems of them, are measured against varies. In the following section, I will briefly outline the types of performance that are commonly used within the research field. The various types of performance have been divided into three main categories: 1) Financial and Market performance, 2) Operational Performance, and 3) Employee attitude and behaviour.

3.2.1 Financial performance

Financial and market performance data is of an objective nature, and can in many instances be easily obtained even when the number of organisations under investigation is big. This type of performance is also the most frequent type of performance found in the HRM-performance literature (Boselie et al., 2005). However, there is also a more subjective side to the financial and market performance data in the research field of HRM and performance – that is perceived organisational performance, which is often utilized in those instances when objective data is difficult obtain. Specific examples of financial and market performance are return on assets, return on equity, revenue, market share, and market value.

3.2.2 Operational performance

Typical measures of operational performance can be productivity, production quality, service quality, sales and innovation. These measures can be obtained both through subjective estimates and objective measures. However, more often than not, the operational measures are of an objective nature. Many of these types of performance are easy to break down in numbers, e.g. the quantity of products produced, number of customer complaints, or number of new products developed.

3.2.3 Employee attitudes and behaviour

Employees' attitudes, behaviours and perceptions have largely been neglected in previous HRM-performance research (Guest, 2011). What has been the most common measure on an individual level is turnover (Boselie et al., 2005). On a positive note, more recent studies have started to include one or more employee measures into their investigations. Examples of attitudes and behaviour that are typically measured within the research field is motivation, job satisfaction, organisational citizenship behaviour, commitment, trust in management, absenteeism and turnover. Measuring and quantifying the employees' attitudes and behaviours can be considered more of a challenge compared to operational and financial performance. Of course, turnover and absenteeism are of a quantitative nature, however, the other types of attitudes and behaviour have been translated into quantifiable data, commonly through Likert-type ratings, in order to be analysed in the quantitative empirical work that characterises the research field.

4 Evidence of a Positive Link

There is an extensive amount of research suggesting that there is a link between HR practices and various types of performance, and further that this link is significantly positive. This chapter will show some of the large body of evidence pointing in the direction of a positive influence from HRM to organisational performance.

The 1990s is an important decade within the research field of HRM-performance. Many pioneering researchers produced valuable empirical evidence. Huselid (1995) and Delaney and Huselid (1996) included a wide range of businesses from various industries. However, also more sector-specific studies from the same time are useful, among those are Arthur (1994) and Ichniowski et al. (1997) focusing on the steel industry; MacDuffie (1995) studied the automotive industry, and Delery and Doty investigating the banking sector. The early stages of HRM-performance research are quite concentrated in the manufacturing sector; however, there are also some exceptions.

Huselid (1995) are for many considered a seminal contribution to the research field of HRM and performance. The study was one of the first to provide sophisticated empirical evidence suggesting that HPWS significantly contributed to increase financial and market performance, lower turnover, and increase productivity. In numbers, the evidence suggested that an HPWS increase of one standard deviation resulted in an \$18,641 increase in market value per employee. Further, each increase in HPWS of one standard deviation was calculated to result in an increase of \$3,814 in cash flow. Sales also seemed to be affected by HPWS, where an increase of one standard deviation of HPWS was estimated to result in an increase in sales of \$27,044. If these estimates are reflecting reality, then the financial effect of investing in HPWS could be of a real significant magnitude.

MacDuffie (1995) investigated 62 automotive assemble plants located in the US. The findings showed that the flexible production plants that had team-based work systems and high commitment HR practices together with low inventory and repair-buffers consistently outperformed the other plants.

Delaney and Huselid (1996) tested the hypothesis that those HR practices affecting

employee skills, employee motivation, and the structure of work will be positively related to organisational performance. They did find significant support for their hypothesis, and noted that progressive HRM practices, including selectivity in staffing, training, and incentive compensation are positively related to perceptual measures of organisational performance. Here, organisational performance was measured by perceived organisational performance compared to industry competitors. This offers some limitations to the results; however, it also allowed them to include both profit and non-profit organisations into their investigation – where the effects of progressive HR practices showed similar results for both types of organisations.

Delery and Doty (1996) found that HR practices such as profit sharing, result-oriented appraisals and job security in general had a positive effect across all organisations. More specifically, they estimated the financial results to be nearly 30 % higher for the banks that were one standard deviation above average on HR practices. They also noted that the banks that were successful in linking the HR strategy to business strategy had significantly larger returns on assets compared to those that did not.

In 1997, Ichniowski, Shaw and Prennushi published a study investigating 36 steel production lines in the US and their HR practices through on-site visits, interviews and comparable monthly productivity data. Their evidence showed a significant positive connection between the extensiveness of the HRM environment and the production performance. They divided the HRM environments into four distinct types, ranging from 1 (Extensive use of HRM) to 4 (No use of HRM), with 2 (some HRM utilization) and 3 (little HRM utilization) in between. The four HR systems mapped out a clear hierarchy of productivity effects, where each of the systems performed better than the other following from HRM system 4 up to HRM system 1. When including the detailed machinery controls the difference in uptime between HRM system 4 and 1 was estimated to be about seven percentage points.

Ichniowski and Shaw (1999) collected data from 41 steel production lines to compare US and Japanese HRM practices and their effect on productivity and performance. The Japanese production lines employed a common system of HR practices consisting of: problem-solving teams, extensive orientation, employee training throughout their careers, extensive information sharing, job rotation, employment security, and profit sharing. They found that the Japanese lines outperformed the average of US lines, where the Japanese lines were about five percent more productive. They also found that the US production lines that

had adopted a full system of HR practices similar to those found in the Japanese lines showed levels of productivity and quality equal to the performance of the Japanese production lines, with no significant statistical difference. US lines that had only adopted some of the HR practices did not show the same productivity gains as the US manufacturers that had adopted a full HR system. Further, the difference in productivity between the US production lines that did not have any HR practices in place and the US lines that had complete systems of HR practices was estimated to be 7.3 percent. The difference in productivity between non-HR production lines and those US lines that had adopted a few practices were 3.6 percent. This suggests that some HR practices are better than none, but to have a complete system of practices makes a significant difference to the production – at least when it comes to US steel production lines. Similar to the productivity results, they also found evidence suggesting the same outline for quality. The Japanese production lines and the “innovative” US lines outperformed the other US lines also concerning production quality.

In 1997, Paauwe and Richardson presented a summarizing analysis that included more than 30 studies on the relationship between HRM and performance. They justified and confirmed the relationship between a number of HR practices and important HR results, such as satisfaction, motivation, turnover, engagement and absenteeism. They further looked at these attitudes and behaviours’ links to more general results concerning operational and financial performance. These results included productivity, quality, customer satisfaction, sales, profit, and market value. The result of this was a sensible explanatory path, leading from HR practices to employees’ attitudes and behaviour, and further operational and financial results.

All the above-mentioned studies indicate that the implementation of specific HR practices or HR systems can be associated with higher organisational performance. The research conducted during the 1990s made much of the empirical foundation for the assumption that HRM leads to better organisational performance. The preceding research achieved much support, however also a considerable amount of critique was guided towards it. This led to an increasing interest in the research field, and the amount of empirical research further escalated, resulting in several special issues in academic journals (Boselie et al., 2009). Going into the 2000s we see research evolving with an increasing interest in non-manufacturing organisations, such as those involved with service, technology, and non-profit work; and using large samples combining many types of industries and sectors in each study.

Another study demonstrating a positive link between HRM and organisational performance is that of Michie and Sheehan-Quinn (2001). In particular, they investigated the correlations between HRM and both financial performance and innovation performance. Their results showed that “low-road” work practices – short-term contracts, a lack of employer commitment to job security, low levels of training and low levels of HRM sophistication – showed negative correlations with corporate performance. Whereas “high-road” work practices on the other side, showed significant positive correlations to corporate performance. “High road” work practices included strategic recruitment and selection, performance related pay and profit sharing, extensive training, teamwork, employment security, flexible job assignments, and two-way communication. Based on how many HR practices that were present, the study divided the companies into four types of HRM Systems, similar to the work of Ichniowski, Shaw and Prennushi (1997). HRM System 4 contained *no* innovative practices (8.2% of the companies fell into this category). HRM System 3 used innovative practices in at least two areas, which were initiated worker involvement in teams and enhanced labour-management communication (31.5% of the companies). HRM System 2 incorporated the information sharing and teamwork practices found in system 3, however, the level of worker involvement in teams were higher, and in addition, they included extensive skills training (44.3% of the companies). Lastly, HRM System 1 included at least one component within each of the practices mentioned above, thus representing a more or less complete high performing system (16% of the companies). In addition to finding evidence showing that the more HR practices the companies had in place the bigger the effect was on perceived financial performance, they also found that companies that met the criteria for HRM System 1 were 40% more likely to innovate compared to the firms who were classified to have HRM System 4.

Guthrie (2001) gathered data from 164 New Zealand companies when investigating the relationship between HIWP, organisational performance and turnover. The HR practices included internal career paths, both group and individual-based rewards, information sharing, teamwork and training. The findings indicated a positive connection between HIWP utilisation and firm productivity, which was measured by sales per employee. In addition, the results showed a negative connection between HIWP and voluntary turnover. Interestingly, employee retention was associated with increases in productivity when the use of HIWP was high; however, when the use of HIWP was low it was associated with reductions in

productivity. This suggests that employee retention is especially critical for the companies with relatively high investments in HIWP. It is probable that the use of HIWP increases the value and importance of the human capital and thus also the costs of employee departures.

Combs and colleagues (2006) conducted a meta-analysis including 92 studies examining the link between HRM and performance. They concluded that there exists a relationship between HPWP and organisational results. Respectively, they achieved an overall effect size of $\bar{r}_c = .20$. The effect sizes were estimated based on the mean of the sample size weighted correlations. The findings also showed a significant difference between the utilisation of systems of practices versus single practices. Studies examining HR systems report greater effects on organisational performance than those investigating single practices. In addition, they also found significant differences between the effect sizes in studies that examined production companies and studies investigating service companies. The effect size for manufacturing companies were nearly twice the size ($\bar{r}_c = .30$) compared with service companies ($\bar{r}_c = .17$). This might suggest that the gains of carrying out HRM in manufacturing organisations are significantly larger than for service organisations.

Liu and colleagues (2007) built on the work of Combs et al. (2006) and based their meta-analysis on the same sample of studies (n=92) which in total included 19,000 organisations. Liu et al. (2007) examined the observed HRM effects found in these 92 studies, and included a total of 13 HR practices. Their results showed that for 10 of the 13 HR practices they investigated there was compelling evidence that each significantly affects performance. They also found three specific factors that had an impact on the effectiveness of the practices: 1) vertical alignment between HRM and firm strategy, 2) horizontal alignment among the HR practices, and 3) the work context.

In an attempt to shed light on the potential of HPWS in small and medium sized companies (SMEs), Drummond and Stone (2007) based their research on postal surveys and face-to-face interviews with CEOs in 30 of the companies ranked in a UK list of “50 Best Small Companies to Work For”. The SMEs studied was highly successful in terms of sales and employment growth, and outperformed nearly all competing companies. In addition, this successfulness had been maintained for several years. They found that the systems that these very successful SMEs had in place was very similar to HPWS, focusing on training and development, high level of job discretion and flexibility, information sharing, involvement and empowerment, appraisal systems, and job security. However, few if any of these businesses recognize what they do in terms of HPWS (Drummon & Stone, 2007, p. 199).

Indeed, the interviewed CEOs stated that they just wanted to make a great place to work, make work enjoyable and not exhausting, and have a culture that puts people first.

Macky and Boxall (2007) explored a heterogeneous sample of New Zealand workers from a diverse range of companies and their attitudes and exposure of HR practices. They found that higher levels of HR exposure were significantly and positively associated with job satisfaction, trust in management and organizational commitment. They did not include any operational or financial performance measures. However, they argue that based on strong evidence of negative correlations between job satisfaction and voluntary turnover (e.g. Harter et al, 2002); and evidence showing that satisfied employees play a key role in generating satisfied customers (e.g. Rogg et al, 2001; Schmidt & Allscheid, 1995), it is very probable that HRM can have positive effects on operational and financial performance.

Zhang and Li (2009) investigated the relationship between HIWP and perceived market performance in the Chinese pharmaceutical industry. The HR practices included were extensive training, participation, result-based appraisals, detailed job descriptions, internal career paths, and profit sharing. These practices were significantly associated with the company's perceived market results.

Frenkel and Lee (2010) examined whether high performing work practices (HPWPs) such as job security, teamwork, information sharing, and training had positive effects on organisational performance in South Korean companies. Their analysis showed significant results indicating that all the practices contributed to increased performance. However, they did not find any evidence indicating synergistic effects when the practices were combined. They also observed that the HPWPs were partially mediated by worker attachment to their workplace.

Lee and colleagues (2010) investigated the Taiwanese steel industry, and found a significant and positive correlation between HPWP and organisational results. HR practices, such as training and development, teamwork, incentive systems, performance appraisals, and job security, were positively connected to the companies' financial results. They also found a close connection between HPWP and business strategy, where an integration and alignment between the two gave rise to a further increase in performance.

Giauque and colleagues (2013) investigated the impact of HR practices on Public Service Motivation (PSM) and organizational performance. The study was based on a survey of Swiss cantonal public employees. Given the non-profit characteristic of these workers' organisations, the type of organisational performance investigated here was perceived

organisational efficiency. PSM is a highly relevant concept for describing the motivational characteristics of public employees, and has previously been tied to job satisfaction, commitment, and organisational citizenship behaviour (Cerase and Farinella, 2006; Kim, 2005; Naff and Crum, 1999). The HR practices were divided into extrinsic work motivators and intrinsic work motivators. HR practices such as job security, performance-related pay, career development, and fairness or equality of treatment were considered extrinsic motivators. The HR practices categorised as intrinsic motivators were job enrichment, participating in decision-making, individual appraisal, and professional development. The main findings were that all the HR practices believed to be intrinsic motivators were significantly associated with PSM. In addition, two extrinsic motivators showed significant correlations with PSM, this was fairness, which showed a positive correlation, and performance-related pay, which was actually negative. For perceived organisational effectiveness, all HR practices showed significant and positive relationships, with the exception of career development. They did also find a direct relationship between PSM and perceived organisational effectiveness; however, this was quite weak. The evidence suggested that organisational commitment mediated the relationship between PSM and perceived performance, which was argued to, together with other work attitudes, moderate the PSM-performance relationship.

Also investigating public employed workers, Gould-Williams et al. (2014) investigated local government employees in Wales (n=1,755) and the impact of high commitment HR practices (HCHRP) and work overload. They found evidence suggesting that HCHRP is positively related to civic mindedness, affective commitment, job satisfaction, and negatively related to intentions to quit. They note that “the positive effects of HCHRP on employee outcomes more than compensated for the negative impact of work load” (Gould-Williams et al., 2004, p.937).

We have seen studies, including meta-analyses, showing evidence of a positive link between HRM and financial performance, operational performance, and employee attitudes and behaviours such as motivation, organisational citizenship behaviour, job satisfaction, commitment and turnover. Summing up all the empirical evidence of a positive relationship makes a convincing body of research for HRM’s contribution to organisational performance.

5 Challenging the HRM-Performance

Link

Wall and Wood (2005, p. 429) note that “It is often assumed that research over last decade has established an effect of human resource management practices on organizational performance”. The relationship between HRM and performance may not be as clear-cut and evident as many researchers seem to express and show through their research. In this chapter, we will explore arguments and evidence challenging the link between HRM and performance.

5.1.1 Methodological limitations

Several critics hold the view there are too many limitations to the existing evidence which makes it difficult to draw any conclusions on the possibility of a causal chain between HRM and organisational performance (Godard, 2004; Wall and Wood, 2005; Wright et al., 2005). These methodological limitations include the number of respondents and their role in the organisations, research design, and execution and interpretation of the analysis.

Wall and Wood (2005) note that authors often paint a picture of a causal relationship between HRM and performance, either by stating this explicitly in their work, or through more subtle insinuations. Labels that have been used on HR systems, such as High Performance Work Systems and Performance Enhancing Work Systems, contributes to the creation of the perception that these systems have a causal effect on organisational performance. In addition, the idea of causality is often incorporated into the titles of research articles, e.g. Arthur’s (1994) “*Effects* of human resource systems on manufacturing performance and turnover” and Huselid’s (1995) “The *impact* of human resource management practices on turnover, productivity and corporate financial performance” [italic added].

In their meta-analysis, Wall and Wood (2005) found several methodological issues in the 25 empirical HRM-performance studies they investigated. Ideally, the measurement of HRM would include evaluations from at least two respondents in order to achieve reliability. Further, in order to avoid contaminating the HRM measurements, the respondents should not be aware of the organisation’s performance. The least preferred

method for gathering HRM data is through single respondents describing their own organisation in addition to possessing knowledge of their own organisation's performance data. Wall and Wood (2005) found that only four out of the 25 studies they investigated used multiple respondents, and further that only two of these reported on inter-rater reliability. With the exception of Ichniowski et al. (1997), all of the studies measured HRM through respondents reporting data on their own organisation. When measuring the dependent variables, here organisational performance, only ten out of the 25 studies utilised objective performance data, while the remaining 15 used self-reported data. Further, in 12 out of the 15 studies utilising self-reported performance measures, the same person who reported on HRM data reported the performance data. Even more important to note, is the fact that 21 out of the 25 studies were cross-sectional. In cross-sectional studies, both the dependent and the independent variables are only measured at one occasion. With longitudinal studies, on the other hand, both the dependent and independent variables are measured several times over a longer period. Unlike longitudinal designs, a cross-sectional approach makes it easier to include a larger sample, which in turn enhances the generalisability of the research. However, cross-sectional designs create poor basis for drawing causal conclusions. If the goal is to answer questions of causality, then longitudinal designs is far more preferred. Thus, the existing evidence of HRM's contributions to organisational performance are considerably weakened. The research field largely consists of studies with a cross-sectional approach (Godart, 2004), and even when the conducted research is not cross-sectional, it is often only quasi-longitudinal. Only four studies in Wall and Wood's (2005) meta-analysis were not cross-sectional, and only two of these had true longitudinal designs (Cappelli & Neumark, 2001; Ichniowski et al. 1997). The remaining two (Guest et al., 2003; Huselid, Jackson & Schuler, 1997) were quasi-longitudinal, and included repeated measures of performance but only one measure in time for HRM.

The main findings reported by Wall and Wood (2005) is that 19 out of the 25 empirical studies reported some form of statistical significant and positive relationship between HRM and organisational performance. However, this also means that six of the studies did not find any significant positive relationship between the independent and dependent variables. Included in these six studies is that of Cappelli and Neumark (2001), which was one of only two studies with an authentic longitudinal design. There

was also one study (Wright et al., 1999) reporting a significant negative relationship between training and financial performance. This lack in consistency across studies further weakens the evidence supporting HRMs positive influence on organisational performance. It is also worth noting that many of the studies accept relatively small effect sizes and often use moderate levels of significance, e.g. Huselid, (1995), Wood & de Menezes (1998) and Michie and Sheehan-Quinn (2001) used significance levels of $p = .10$. This is of course in addition to other lower significance levels, and one could argue that as long as the levels are made evident in the articles there is no need to raise too many questions. However, this may also be reflecting a tendency within the HRM-performance literature to interpret the results in an overly positive way.

5.1.2 Measuring HRM

Another shortcoming within the research field is the way in which HRM is measured. As mentioned previously, data are very often obtained through one single person within each organisation. *How* HRM is measured is an issue within this problem - HRM is often measured by its presence, where informants, typically HR managers or other management, report which HR practices they have implemented in their organisation (Boeslie et al., 2005; Nishii et al., 2008; Wall & Wood, 2005; Wright & Nishii, 2007). By merely capturing the presence of HR practices within an organisation, one does not know how many of the employees who are actually affected by these practices and if these practices actually are carried out, and in which matter they are carried out. As Ramsay et al. (2000) point out, that even if it can be quite easy to place employees in an organisation executing specific HR practices; it is not possible to know if the respondents always are among those actually experiencing the practices in their workplace. This is a shortcoming that can be found in a large amount of the research, where it looks like one assumes that all employees within an organisation is treated equally. Combining this assumption of equality with one or just a few informants reporting the HRM data can lead to erroneous measurements of which HR practices that are executed, and to what extent they are utilized in the given organisations.

Going even further, Wright and Nishii (2007) address the issue of HR managers' or management's reports on which HR activities the organisations have implemented and how they are executed by distinguishing between *intended* HR practices, *actual* HR

practices, and *experienced* HR practices. The decision makers of an organisation that have decided to implement a system of HR practices have one or more intentions regarding how these practices shall be executed and what their results should be – these are the intended HR practices. Wright and Nishii (2007) note that the implementation of an intended HRM system may be problematic due to obstacles or barriers both on an institutional level and on an individual level. On an institutional level, the challenge is to implement the HRM system in a consistent manner across the entire organisation both horizontally and vertically. What hampers the implementation of an intended HRM system on an individual level is both resistance to change and individual differences. The managers' willingness to execute the given HR practices is crucial for the implementation, and it is very possible that the implementation will meet some form of resistance. The intended HRM systems further fall victim to individual differences through different interpretations by the executing managers, both on how they are to be executed and what their intentions are. According to Wright and Nishii (2007), this will create discrepancies between the intended HR practices and the actual practices that we find in the organisations. They argue further that one also has to differentiate between the actual HR practices and how the employees experience them. This concerns both what intentions the employees apply to the HR practices, and to what degree they experience that the various practices are carried out. Research suggests that there is little agreement between employees' and management's statements regarding the presence of HR practices, where management seem to report more practices than the employees (Guest, 2011; Khilji & Wang, 2006). If this is the case, that there are significant differences between the intended HR practices that an organisation decide to implement, the actual practices that have been implemented, and also between those practices and how the employees experience them, then the existing evidence of a positive link between HRM and performance are further challenged.

Nishii, Lepak, and Schneider (2008) took the idea of variations between intended and experienced HR practices to the next level. Most academics agree that if HRM has an effect on organisational performance, this effect is linked to the practices' influence on employee attitude and behaviour. However, Nishii and colleagues (2008) suggest that the possible causal chain is even more complex. They argue that the attributions that employees make about why management adopts the HR practices comes before any changes in attitude or behaviour. Utilising attribution theory in their study, Nishii et al.

(2008) found that the employees made attributions to the HR practices and their intentions, and that these “HR attributions” were connected to different attitudes. In particular, they divided the types of HR attributions into two categories. The first type of attribution that employees made was that the HR practices were motivated by the organisation’s genuine concern with maintaining a high standard of quality and the employees’ satisfaction and well-being. The other type of employee attribution was that the HR practices had been implemented to reduce cost and to exploit the employees. In addition to this, they also investigated unit-level attitudes and if these could be connected to Organisational Citizenship Behaviour (OCB), and further, if OCB could be linked to customer satisfaction. Their significant findings were that HR attributions made by the employees about an organisation’s pursuit of quality, employee satisfaction and employee well-being were positively linked to the employees’ attitudes. Further, unit-level attitudes were significantly and positively connected to OCB, which in turn was significantly linked to customer satisfaction. These findings suggest that research on the possible link between HRM and performance should take employees’ experience and interpretations of the HR practices into consideration, and not only report on the mere presence of practices and for how many employees, which seem to have been the tradition so far. Although these evidence challenge previous research on HRM-performance, it also shows promise of a positive relationship between the two.

5.1.3 The distance between variables

The distance between some of the indicators of organisational performance and HR practices have also been pointed out as being too big (Guest, 1997). This applies mainly to the financial measures of performance, such as market value and return on equity. These types of measures are potentially prone to be affected by other organisational interventions, such as research and development activities or market strategies. The greater the distance between dependent and independent variables, the greater is the possibility of third variable interference. In accordance with this, the meta-analysis of Combs et al. (2006) made the assumption that HPWP would have a bigger effect on operational results, such as productivity and turnover, more than it would have on financial results, such as growth and market value. Thus, they expected

that empirical studies utilising operational measures of performance would achieve greater effect sizes than the studies investigating financial performance measures. However, their hypothesis was not confirmed – operational performance measures did not provide larger effect sizes compared to financial performance measures. Boselie et al. (2005) emphasise that the organisational results are influenced by so many factors. They note that within an organisation, variables such as new technology, new production methods, advertising, mergers and acquisitions, and short-lived calculated movements, will all influence the organisational results. Other variables existing outside the organisation will also have an impact on the results of an organisation. This could for instance be the price of oil, market changes, legislative changes, and even global-political conflicts (Boselie et al., 2005). It is reasonable to assume that if HRM has an effect on organisational performance, the HR practices will first have an effect on employee attitude and behaviour or at least on operational results before one can see effects on the financial performance. Combs et al. (2006) did not find any support for this assumption - their results showed no significant differences between studies utilising operational measures and those utilising financial measures. This may suggest that the relationship between HRM and performance is at least partly reversed.

5.1.4 Reversed causation and third factor influence

A majority of the research seem to overlook or ignore the possibility of reversed causality. In a sample of studies that examined the relationship between HR practices and organisational results, Wright et al. (2005) found that only three out of 66 studies tested for reversed causality. It is possible that the observed positive relationship between HRM and performance may be caused by the fact that organisations who perform well and have many available resources are more willing to invest and implement HR practices than organisations with poorer performance and fewer resources. In addition to the possibility of willingness, well-performing organisations also have greater opportunity to invest in HRM compared to their lower performing competitors.

Another possibility is that the observed covariation between HRM and organisational performance is caused by a third factor influencing both variables at more or less the same time. Typically, when researching the link between HRM and

operational and financial performance researchers include control variables such as size, age, union coverage, and industry and sector. However, it is possible that effective and good leaders contribute to increased performance in an organisation, and that the same leaders are a driving force for HR practices implementation. This is similar to the findings made by Drommond and Stone (2007) where they observed that CEOs of well performing SMEs had implemented work systems similar to HPWS without being aware of the HPWS concept. This would create a fake relationship between HRM and organisational performance in studies not accounting for such third variables.

5.1.5 Increasing costs

Cappelli and Neumark (2001) is one of the few studies investigating the relationship between HRM and organisational results with a true longitudinal design. They found what they classified as weak statistical indications that HRM affected the organisational results in a positive matter. The observations included small to none effects between HR practices and the collective work efficiency, in addition to evidence suggesting that HR practices which decentralise power increase salary cost per employee. They concluded that their results indicate that HPWP increase the average salary costs for otherwise equal employees rather than raising the employees to higher levels of quality.

Godard (2004) argue that in addition to over-estimating the positive effects HPWP can have, researchers also seem to under-estimate the costs brought on by the HR practices. The costs related to HRM are often not included in the measurements that are used to estimate the organisational results. Although high levels of HPWP can provide substantial competitive advantage to organisations, the costs related to these practices can offset the possible gains (Godard, 2004). In line with this, Sels et al. (2006) found that the cost increases stemming from the HR practices offset the increase in organisational productivity. Another study coming to a similar conclusion is that of Way (2002). He investigated a sample of 446 US companies with fewer than 100 employees, and found that HPWS was associated with lower workforce turnover, lower voluntary turnover, and higher perceived productivity. However, the results did not show an association between HPWS and the objective measure of labour productivity. Labour productivity was measured by the natural logarithm of the firm's total sales, receipts or shipments divided by total labour costs. This led Way (2002) to conclude

that the positive effects of HPWS did not exceed the costs related with the use of such HR systems.

5.1.6 A lack of evidence

Although the number of studies successful in showing evidence of a positive link between HRM and performance is very big, some studies are also more or less unsuccessful in their attempts.

Guest and colleagues (2003) conducted a quasi-longitudinal study on the relationship between HRM and organisational results in 366 UK businesses. They utilised both objective and subjective measures of organisational results, and found that when they used objective measures of performance, greater use of HR practices were linked to lower turnover and higher revenue per employee. However, when controlling for past performance these correlations ceased to be significant. When estimating HRM's effects through subjective measurements of performance, they found strong connections between HRM and both productivity and financial performance. Considering strong arguments for utilising objective data together with the lack of evidence when controlling for past performance, these findings can be considered not to be supporting a positive link between HRM and organisational performance.

A number of other studies lack results showing evidence of a positive link between HRM and organisational performance. Richard and Johnson (2001) examined 73 companies in the banking sector. They found a negative link between HRM and turnover, however, there was no link found between strategic HRM and organisational efficiency. Vandenberg, Richardson and Eastman (1999) used return on equity (ROE) and turnover as measures of organisational performance when investigating 49 US and Canadian life insurance companies. They did find evidence supporting their hypothesis that HIWP would affect involvement related work processes, and that these processes had a positive effect on the organisational results. However, they also found that some HR practices seemed to be negatively correlated with ROE, such as information sharing regarding the direction of the company and incentive practices. In addition, training did not show any significant correlation with ROE. The fact that incentive practices are negatively correlated with ROE can easily be explained through the increase in costs that such practices bring with them – bringing back the argument of HRM related costs. However, it is harder to try to explain why the correlations between ROE

and direction sharing and training is either negative or insignificant. It is worth mentioning that there was a very strong and negative correlation between training and turnover.

Wood and de Menezes (1998) used two large national surveys from the UK as the basis for their study. They categorised the HR systems into four groups with different levels of commitment. All levels affected the organisational results in a positive way. However, the companies having the highest level of commitment based HR systems did not show any significantly better organisational results compared to the companies with lower levels of commitment based HR systems. The authors note that there can be several reasons for this, but than one cannot exclude the possibility that there is no unique gain by implementing and executing commitment based HRM.

5.1.7 Negative effects on the employees as a result of HRM

Although many researches have gathered evidence suggesting that HR practices lead to positive HR results in the employees, such as motivation, job satisfaction, and improved social and working climate, there are also studies finding quite the opposite. Empirical research has found that HPWS can have negative effects on the employees, such as stress (Godard, 2001; Ramsay et al., 2000), burn out (Kroon et al., 2009), and ripple effects from work into private life (White et al., 2003).

Alternative Working Practices (AWP) can be considered a form of HPWP, which include practices such as selection procedures and extensive training and development. Godard (2001) found that moderate levels of AWP showed to have more or less positive effect on the employees, including increased task involvement, job satisfaction, confidence, motivation, commitment, OCB, and sense of belongingness. However, with the exception of commitment and motivation, all the positive employee effects seemed to diminish and even cease to exist when the organisations used higher levels of AWP. In addition, the study also found increased levels of stress among the employees in the higher-level AWP companies and assumed that this was caused by an increase in work intensity and sense of responsibility.

Ramsay et al. (2000) found evidence suggesting that HPWS was positively related to organisational performance, however, they made the argument that the increase in performance did not come as a result of positive employee effects such as well-being and motivation. Although they did find evidence indicating that the employees experienced higher commitment and involvement to the organisation. However, it was argued that this increase in

commitment and involvement could just as well result in an increased in work intensification, insecurity, stress and discretion, which in turn increased both the workload and performance.

Similar to Godard (2001) and Ramsay et al. (2000), the study of Kroon et al. (2009) suggest that the use of HR practices within a company can lead to higher levels of workload and stress. Kroon et al. (2009) found a positive link between HPWP and burnout, where this link was mediated by work demands. This means that HPWP was effecting the work demands experienced by the employees, and further that these work demands were positively correlated to emotional fatigue and burn out. Legge (1995) state that even if the employees may appreciate the incentives that are offered through HPWP, the practices send out signals of expectation concerning increased performance and effort from the employees.

White et al. (2003) analysed data from British employee surveys and found that HPWS can create an imbalance in the relationship between work and private life. The study showed that actual hours worked affected the private life the most, but also that a number of HR practices could have major consequences. Assessment systems, group based work forms and individual incentives were all observed to contribute to an increase in ripple effects from work into private life. However, two of the investigated HR practices seemed to have diminishing effects on the ripple effects: flexible hours and personal discretion. All the remaining practices in HPWS were observed to increase the spill over from work into private life, and they concluded that their results suggest a conflict between HPWP and work-life balance.

Although the above-mentioned studies neither help us confirm or reject the hypothesis that HRM is positively linked to organisational performance, they do suggest that HR practices not necessarily have positive effects on the employees at all times. These studies show the possible negative consequences HRM may have on the employees. As Sels et al. (2006) points out, HR practices can have positive financial effects for organisations even if the practices affect the employees in a negative way. An increase in work intensity may give rise to increased performance in the short run; however, there is also a risk that this can lead to an increase in costs in the end. If the health and well-being of the employees are suffering under HPWS, then one would also expect the sick leave and absence to increase, thus increasing the costs.

6 Conclusion

We have seen a number of studies, both older and newer, indicating that HRM contributes to increase the organisational performance. These studies have shown evidence indicating that HR practices affect the organisations' employee attitudes and behaviours, operational performance and financial and market performance.

However, we have also seen that a number of methodological limitations and empirical evidence has challenged the body of research indicating a positive link between HRM and performance. The most important of the methodological limitations is perhaps the fact that nearly all research within the research field is cross-sectional. There are hardly any studies investigating the relationship with a true longitudinal design, and the few that do have trouble showing consistent positive effects from HRM to organisational performance.

Another troubling issue within the research concerns the gathering of data and the data itself. Most studies are based on single or few respondents often reporting on their own organisation concerning both independent and dependent variables. When reporting on HRM measures, research often rely on data informing in the mere presence of practices, thus possibly creating a skewed picture of reality. In addition, we have been made aware that the possible HRM-performance link can be much more complex than what has previously been believed. The differentiation between intended, actual and perceived HR practices look to be an important factor not to be neglected.

We have also seen findings indicating that there is a real possibility for a reversed link between HRM and performance, or at least partly reversed. The lack of longitudinal studies and the inconsistency among the already existing longitudinal studies make it very difficult to discard this possibility. In addition, we also cannot exclude the possibility of third factors influencing both HRM and performance at the same time.

In addition, because there are so many differences in the number and types of HR practices that are included and the various types of performance these HR practices are measured against, the existing evidence can be considered non-additive. Even if the body of positive research is big, the research rather expands the area of effects, rather than constructing trust and confidence on the same effects.

Based on the methodological limitations, the observed inconsistency among research, the possibility of reversed causation and third factor influence, indications of costs offsetting the gains, possibility of negative employee effects, and the non-additive characteristic of the

research field; the thesis concludes that the causal chain between HRM and performance is challenged to the point where it is problematic to draw any causal link from HRM to organisational performance.

Naturally, future research within the field should seek to avoid the same methodological limitations that characterises and weakens previous research. However, these methodological limitations is not usually a result of researchers' ignorance, but rather it is often a result of the limited funding found in the social sciences. Related to that, Wall and Wood (2005) believe that in order to identify and reveal the possible relationship between HRM and organisational performance there is a need for "big science". They make the argument that the solution is a large, longitudinal research project where academics, organisations and government cooperate to arrive at the final answer to the HRM-performance question.

There are also scholars calling for future research to go in the opposite direction of "big science". According to Hesketh and Fleetwood (2006) there is too little research describing the processes in which HRM may affect the organisational results through intermediating variables. They believe that in order to come closer to a conclusion on causality one should first obtain a better understanding of the processes HRM initiates. They further argue that quantitative research is not sufficient to achieve this understanding, and researchers should rather turn to in depth interviews and case studies. The belief is that only when we have a better picture of the processes that happens in the black box between HRM and organisational results can we see any causal link.

Similar to this, Guest (2011) also believe that future research should focus more on the individual level and pursuit to reveal what happens with the employees in the application of HRM. The majority of existing evidence has been derived from studies trying to "grasp it all", and it could very well be argued that the research field would benefit from more pointed and carefully designed studies and from studies using both quantitative and qualitative data. Wall and Wood's (2005) "big science" may have great potential when it comes to illuminating the question of causality – but what worth is that if we don't know what is actually happening in the causal chain? It is this thesis' belief that in order to get a grip on the big picture, one must also seek to uncover all the small pieces that together comprise the whole concept that one is trying to understand.

In addition, several researchers make the point that it would be beneficial to combine micro and macro research (Boselie et al., 2005; Nishii et al., 2008; Wright and Boswell, 2002). They argue that it would be useful to conduct research on the link between HRM and

performance with several levels of analysis. While analysis on micro level concerns the individuals and the influence HRM has on the employees, the analysis on macro level relate to the organisation and its processes. Carrying out multi-level analyses may give a greater understanding of the black box, and it may provide us with evidence painting a picture closer to reality. Wright and Boswell (2002) state that in addition to combining several levels of analysis when conducting research, it would also be useful to develop conceptual and theoretical models combining micro and macro levels.

The most widespread view seems to be that HRM *has* positive effects on organisational performance, especially so among practitioners and in the organisations as we see the concept of HRM spreading across countries, industries and sectors. Because the causal link between HRM and performance is questionable, the scientific evidence may be misleading organisations and practitioners causing them to implement and execute HR practices that may or may not give rise to better performance, increase positive employee attitudes and behaviour, cost more than the gain, or be harmful to the employees' well-being.

On the other hand, we also have HR professionals struggling to justify the work they do. The costs related to HRM, such as training and development, and incentive systems, are easy to visualise and measure; however, their effects are not – at least not without sophisticated analyses.

This thesis does not wish to discard HRM as a contributing organisational function. It is my belief that even though there are decades of evidence indicating that HRM contributes to organisational performance, no causal conclusion can be drawn. However, the amount of positive evidence also leads me to conclude that HRM has the possibility to improve organisational performance.

In order to be able to utilise HRM in such a way that it actually can contribute to increased organisational results there are a number of factors that organisations and HR professionals should be aware of. It would be beneficial to be conscious of how HR systems and practices are communicated.

As we have seen from the work of Nishii et al. (2008), employees seem to make attributions about the HR practices and their motives, which further can have effects on their attitudes and behaviour. This indicates that the people whom initiate and carry out the practices should communicate the purposes and intentions clearly. In order to secure a consistent execution across the organisation, it also appears to be important that the line-managers are well aligned with management when it comes to purpose and intention, and how

the practices ought to be carried out.

It also appears to be differences among the effects of HR practices and the types of organisations. For non-profit organisations and their effectiveness, there are indications that those HR practices associated with intrinsic motivation are those that matter the most. There are a number of such minor relationships and contingencies within the research field of HRM-performance, that it is nearly impossible for organisations to take them all into account when implementing and executing HRM.

We have also seen examples of studies showing that HRM can have negative effects on the employees that indicate that the organisations, HR professionals, and managers should pay attention to the employees' well-being. There might be a fine line between the positive outcomes and the negative ones for the employees, and although the HR practices can lead to an increase in organisational performance, one should not neglect to take well-being into the equation. Organisations would not benefit from an increase in absenteeism and turnover in the end. One cannot exclude the possibility that systems of HR practices can have such negative effects on the employees, that financially the gains are offset by the costs related to employee well-being, and not only by the costs of HRM implementation and execution. And lastly, to quote the German philosopher Immanuel Kant: "Always recognise that human individuals are ends, and do not use them as means to your end". Put in the setting of organisations and HRM; beside from the financial awareness, there are also some ethical considerations that perhaps should not be overlooked by the organisations concerning the application of HRM.

This thesis concludes that researchers have failed to demonstrate that HRM *causes* higher performance, and it is thus still unclear whether HRM leads to increased organisational performance or not. What seems even more unclear based on the numbers of different theories, perspectives and evidence, is how this potential link can be explained. In order to be able to provide more guidance for decision makers and practitioners, research needs to explain more thoroughly how HRM works and be more specific on its effects. Future research will possibly reveal more of the processes that HRM may initiate and what the results of these processes are. Although this thesis finds it premature to conclude with certainty that HRM leads to better organisational performance, much of the existing research is promising, and it justifies to a large extent future investments in the research field of HRM and performance. Based on the amount of positive evidence, it is highly probable that HRM *can* lead to better organisational performance; it is only a matter of figuring more about out *how* we can make it happen.

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