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*HRM AND ORGANISATIONAL PERFORMANCE.
AN ATTEMPT TO OPEN THE 'BLACK BOX'*

BY

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VOLUME I

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Abstract

Over the last decade, much research has been conducted in the field of HRM and its association with organisational performance. Encouraged by substantial positive evidence for statistical associations between sophisticated HRM practices and enhanced organisational performance, HRM researchers have become more assertive in their claims that HRM contributes to performance. However, most of the research is based on questionnaire surveys and still leaves key questions unanswered, in particular by which processes HRM contributes to performance. This lack of knowledge about the processes involved in the HRM-performance relationship is referred to as 'black box'. It is the focus of this thesis to attempt to open this 'black box'. A qualitative case study methodology was adopted and the Glasgow four-star hotel sector chosen as a field of enquiry. This choice allowed for a standardisation of factors that might influence the degree of sophistication of HRM and its impact on performance, i.e. regional differences in terms of product and labour markets, capital intensity and unionisation. Four out of seven eligible hotels participated in the research. The cognitions of managerial respondents from different levels (i.e. general managers, HR managers and line managers) formed the basis of the research. Interviews with these respondents were analysed using a causal mapping method. Detailed quantitative secondary data enabled an investigation of the economic context and demonstrated that organisational performance is influenced by the economic context. It is argued that the appropriate level of analysis is the operational departments where HRM is applied by line managers in a way not necessarily in accordance with formal policy. On this level, HRM has demonstrated both direct effects on the achievement of departmental performance indicators and indirect effects through employee outcomes.

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1. Introduction to the thesis

The following introduction aims to provide a brief overview of this thesis by outlining the research background (Chapter 1.1) leading to the establishment of a research question and hypotheses (Chapter 1.2), the methodology adopted and key arguments (Chapter 1.3). A separate section introduces each chapter to facilitate an overview of the thesis (Chapter 1.4). Definitions of terms and stylistic conventions are described in Chapter 1.5. A short summary concludes Chapter 1 before progressing to the arguments related to HRM and its relation to performance discussed in Chapter 2.

1.1 Research Background

The concept Human resource management (HRM) has its roots in non-unionised US companies with comparatively sophisticated employment practices (Purcell & Ahlstrand 1994). During the 1980s there was increasing academic interest in the concept. Early models of HRM (e.g. Beer et al. 1984, Fombrun et al. 1984, Guest 1989) were largely conceptual and not based on substantial empirical evidence for their validity. The extension of the HRM concept to the concept of *strategic* HRM (SHRM) is seen by some as a somewhat special strand of HRM (Boxall 1992, Delery & Doty 1996, Huang 2000), by others even as a new discipline (Wright & McMahan 1992). Common themes in SHRM are the link between organisational strategy and HRM and the link between HRM and performance (Khatri 2000). The 1990s saw a substantial amount of empirical research carried out trying to find evidence for both (see Appendix A 1 for an overview of research questions addressed by empirical studies).

According to Paauwe & Richardson (2001, p. 1087), the focus of empirical research on the relation of HRM to performance is a sign for increased maturity in the debate on HRM as “naïve prescription and the potentially sterile definitional scholasticism” are left behind at last. Much of this research conducted in the 1990s did in fact find statistical evidence for an association between sophisticated HRM and organisational performance (e.g., Arthur 1994, Huselid 1995, Ichniowski et al. 1997). Even though

the findings were and are very encouraging for researchers to conduct further studies in the area of HRM and performance, there remains a lack of research on the processes involved in the hypothesised causal path from HRM to performance via employee outcomes such as attitudes and commitment, much of which is assumed rather than tested (Purcell 1999). Consequently, researchers called for more studies focusing on the processes by which HRM contributes to performance (Becker & Gerhart 1996, Becker et al. 1997, Purcell 1999) referred to as 'black box'. Despite recent advances of the research in terms of research design, methodological debates, and testing for the direction of causality, research gaps still remain. Two research hypotheses explicated in the next section were derived and are explicated in the following section.

1.2 Research focus and hypotheses

The question of whether there is a connection between sophisticated HRM and performance has received strong empirical support; however, the processes by which this association can be explained are still unclear and require investigation (Becker & Gerhart 1996, Becker et al. 1997, Purcell 1999). This thesis, therefore, examines the processes through which HRM contributes to organisational performance. It does so by focusing firstly on the influence of the economic context and secondly the mechanics through which HRM contributes to performance. Two specific hypotheses are examined.

H1: The economic environment influences organisational performance.

H2: HRM contributes to organisational performance

H2a: HRM contributes to performance through its alignment with business strategy

H2b: The achievement of operational objectives and the solution of operational problems depend on the availability of staff with the relevant qualities and in the adequate quantities

H2c: The availability of staff with relevant qualities depends on the

application of advanced HRM techniques

H2d: The availability of staff in the adequate quantities depends on the application of advanced HRM techniques

Seeking evidence on these hypotheses is necessary to advance research in the area of HRM and organisational performance and is of interest and relevance to both the academic and practitioner communities. Knowing more about how HRM influences performance is an essential element in progressing research in the area. According to Guest (2001), research progress is required in regard to a theory on HRM, on performance and the link between HRM and performance. The practitioner can benefit from further knowledge in this field as it can be useful in the design of HRM systems for organisations aiming to improve performance. The objective of this thesis is to provide a substantial contribution to knowledge in the area, both in terms of the actual findings on the HRM-performance question and in terms of the methodology adopted which is briefly outlined in the next section.

1.3 Methodology and key arguments

Rather than using a cross-sectional quantitative survey as most previous studies have, a qualitative case-study methodology was adopted to investigate the research hypotheses. The labour intensive four-star hotel sector in Glasgow was chosen to conduct longitudinal case studies with a five-year historical perspective. The choice of the four-star hotel sector in Glasgow enabled controlling for several factors which can bias performance measures, including unionism, capital intensity, regional differences in both product and labour markets, and product differences. Four out of seven eligible city hotels participated in the study, providing high representativeness for four-star hotels in Glasgow. Three levels of respondents were chosen, i.e. HR managers who provided information on HRM development in their organisations, general managers who provided data on performance, strategy, competition and the link of HRM and performance on an organisational level, and line managers who were interviewed on their departmental objectives and problems as well as HRM contributions to goal achievement and problem solution.

The collection of primary data in the field yielded both objective and subjective data. Based on the literature on 'managerial cognition', an approach focusing on the mental maps and cognitions of managers acknowledging their centrality to decision making, I argue that it is particularly the latter that offer important information on organisational processes relevant to the research question and that these subjective managerial accounts are of particular interest for line managers as the 'black box' between HRM and performance is located on a departmental level where idiosyncratic objectives related to the delivery of the organisation's services are established and pursued. The data from line and general managers were analysed using a method known as causal mapping. This technique allows for a graphical representation of respondents' concepts and the connections made by them between these concepts and is eminently suitable for studying causal phenomena. The analysis revealed an impact of HRM on idiosyncratic performance objectives on a departmental level. Quantitative secondary data were analysed to examine the influence of the environment on organisational performance and HRM development. The value of this approach was confirmed as the external environment was found to help explain hotel performance within the Glasgow context as well as HRM adoption. The study sample is representative of the four-star hotel sector in Glasgow, and large city-centre hotels in the UK.

1.4 Outline of the thesis

Chapters 2 and 3 jointly discuss the research issues in the literature with the objective of illustrating the state of the research on the topic area which can be described in analogy to a puzzle (Perry 1994). Chapter 2 identifies the available elements in the puzzle from reviewing both the conceptual literature on the arguments relating to HRM and its contribution to performance. This is achieved by introducing the concept of advanced HRM and by presenting several theoretical approaches that provide an explanation of the processes by which HRM can contribute to performance. Following this, the focus shifts towards the empirical literature in Chapter 3, investigating empirical data related to HRM and performance. The key

findings from these empirical studies were recorded and research implications were derived. Based on these are the research question and its subordinate hypotheses already introduced in Chapter 1.2. Chapter 4 then proceeds to discuss the methodology adopted to hunt for the missing pieces and Chapter 5 presents those that were found. Chapter 6 returns to the initial puzzle and explains how the findings of this research might be used as elements to complete the picture hidden in the puzzle by drawing conclusions about the research question. Theoretical, practical and methodological implications are discussed, and suggestions for further research conclude the thesis.

1.5 Definitions of abbreviations and conventions

Quotations in this text are as in the original texts, unless explicitly otherwise indicated. Conventions used for causal mapping are introduced in Chapter 4. Figures and tables are numbered according to the chapters they appear in, e.g. Table 2 is the first table in Chapter 2. The following abbreviations are used frequently and defined in the following:

CM:	Causal mapping/ cognitive mapping
F & B:	Food and beverage
GGCVTB:	Greater Glasgow and Clyde Valley Tourist Board
GM:	General manager
GRATE:	Gross Rate of Return on Capital
HCM:	High Commitment Management
HIM:	High Involvement Management
HPWS:	High Performance Work Systems
HPWP:	High Performing Work Practices
HRM:	Human resource management
LEC:	Local Enterprise Councils
LFS:	Labour Force Survey
LM:	Line manager
Man.:	Management or manager

Opps.:	Opportunities
Rec. & sel.:	Recruitment and selection
RBV:	Resource-based view of the firm
ROA:	Return on Assets
ROE:	Return on Equity
ROCE:	Return on Capital Employed
SCBS:	Scottish Chambers Business Survey
SHRM:	Strategic human resource management
STB:	Scottish Tourist Board
TQM:	Total Quality Management
WERS 98:	Workplace Employee Relations Survey 1998

1.6 Introduction summary

This introductory chapter laid the foundations for the thesis. After highlighting key issues and gaps in the research background, the research question and hypotheses were introduced and the relevance of the research for theory and practice was explained. Major methodological issues and key arguments were introduced and an overview of the text provided by outlining the content of the following chapters. Frequently used abbreviations and stylistic conventions were defined. On these foundations, the thesis can proceed with a focused discussion of HRM and theoretical approaches that can help explain the processes by which HRM contributes to performance.

2. Arguments relating to HRM and its link to performance

This chapter discusses arguments related to human resource management (HRM) and how it can contribute to organisational performance. Academic interest in the debate has increased over the last decade, and the proponents of sophisticated people management practices in the guise of advanced HRM, High Involvement Management, High Commitment Management or High Performance Work Systems have become increasingly confident that HRM contributes to improved organisational performance. The purpose of this chapter is to clarify arguments relating to this claim by discussing what is meant by HRM and by performance, and what the key claims are with regard to how this contribution is brought about, i.e. the processes involved in the HRM-performance link.

2.1 Background information on human resource management

Human resource management (HRM) is a concept which has its roots in non-unionised US companies with comparatively sophisticated employment practices (Purcell & Ahlstrand 1994). During the 1980s there was increasing academic interest in the concept. Whether HRM is different in substance from 'personnel management' or whether there is merely a change in rhetoric has been much debated in the literature (e.g. Legge 1989, Keenoy 1990b, Storey 1995). Similar controversy characterises the debate on the status of HRM as discussed by Noon (1992, p. 16) who discusses whether HRM is a 'map, model or theory' and who notes that "for some practitioners and academics, HRM is a full-blown management theory with practical implications, whilst for others it remains an uncertain and imprecise notion." (ibid.).

Not surprisingly, definitions on HRM vary immensely and no attempt is made here to provide a representative sample of such definitions. For purposes of illustration, one general and one more specific definition are given. Sisson (1990, p. 1) defines HRM in a general sense as referring to "policies, procedures and processes involved in the management of people in work organisations", whereas Storey (1995, p. 5) applies a more specific definition, stating that HRM

“is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques.”

Storey’s definitions has the advantage that it specifies firstly the characterisation of HRM as one particular approach to managing people which secondly yields a competent and committed workforce which thirdly positively affects organisational competitive advantage or performance. These three themes can be recognised in much of the conceptual and empirical work on HRM and will re-emerge throughout the discussion.

Early models of HRM (e.g. Beer et al. 1984, Fombrun et al. 1984, Guest 1989) were largely conceptual and not subjected to empirical validation. Beer et al.’s (1984) so-called Harvard-model shows the interconnections between stakeholder interests, situational factors, HRM policy choices, HR outcomes, and long-term consequences. In contrast to this more pluralistic model (Blyton & Turnbull 1992), Fombrun et al.’s (1984) unitarist model does not explicitly incorporate employee interests. The latter model emphasises the alignment of HRM with organisational strategy for the required type of employee performance.

Such alignment issues are often discussed within *strategic* HRM (SHRM) which is seen by some as a somewhat special strand of HRM (Boxall 1992, Delery & Doty 1996, Huang 2000), by others even as a new discipline (Wright & McMahan 1992). Common themes in SHRM are the link between organisational strategy and HRM and the link between HRM and performance (Khatri 2000). The strategy-HRM link can be subdivided into micro and macro approaches (op. cit.) with the latter investigating the status and influence of the HR function in organisations (see e.g. Torrington & Hall 1996 and Kelly & Gennard 1996, 1998). Even though the necessity of strategic integration of HRM and organisational strategy is frequently stressed (Fisher et al. 1996, Hendry 1995), there is disagreement about the interaction of HRM and strategy. Torrington & Hall (1998) describe the various degrees of such interactions, ranging from separation (as in ‘unstrategic’ personnel management) to a reciprocal linkage (Lengnick-Hall & Lengnick-Hall 1988) and from there to a

conception of HRM with crucial influence on business strategy (Butler 1988, 1991). The micro approach (as in Khatri's (op. cit.) classification) examines not the nature of HR influence, but the very nature of HR policies and practices in different constellations with strategy. Two conceptions are particularly popular in the literature (and used in the empirical studies to be reviewed in a later chapter): Miles & Snow's (1984) and Schuler & Jackson's (1987) typologies. Their common theme is that for a certain business strategy there are only very limited HRM choices (Mabey & Salaman 1995).

Over the past decade there has been high interest and much research in the area of HRM or people management practices and their link to performance (Whipp 1992, Berg 1999). This has been especially so in Anglophone countries, where the arrival of a particular approach to HRM termed 'high commitment', 'high involvement' or 'high performing' has been declared whose practices are claimed to have a significant and positive impact on the 'bottom line' (Ramsay et al. 2000).

In the early 1980s, Peters & Waterman (1982) tried to trace back the roots of success for American companies which had been successful over time. Their *In Search of Excellence* has strongly influenced management thinking and behavioural science of organisations alike, despite serious methodological as well as conceptual weaknesses in their research (Guest 1992). In a nutshell, Peters & Waterman (op. cit.) identified eight elements most of which are 'soft', people-management related issues. Not much later, Walton (1985) advocated a shift from 'control to commitment', arguing that commitment-inducing work practices such as reducing internal hierarchies, use of teamwork and encouragement of worker participation leads to commitment and thus to "enhanced performance" (ibid., p. 80). In a similar vein, Lawler (1986) proposed the use of 'high-involvement management' (HIM). The essence of Walton's (1985) and Lawler's (1986) ideas are by no means new or revolutionary, but have, in one form or another, turned up repeatedly in the social sciences, be it by proponents of the socio-technical systems school (Emery & Trist 1960) or the human relations movement (Argyris 1964, Likert 1960, Roethlisberger 1959). Later, still, 'high-performance management' in the form of 'high

performance work systems' (HPWS) or 'high performing work practices' (HPWP) – often used synonymously to high 'commitment management' (HCM) – has become increasingly popular, reflecting the increasing confidence in its ability to elicit enhanced economic performance (Wood 1999). Indeed, many empirical studies (mostly quantitative in research design) show an association between HR practices and organisational performance (e.g. Huselid 1995, Arthur 1994, MacDuffie 1995).

Despite the widespread use of HCM, HPWS/HPWP and HIM as synonyms, Wood (1999) identifies “clear differences in the underlying conceptions, or at least emphases, of writers using the term ‘high performance’” (p. 395). In addition to the mentioned synonymous use of HPWP with HIM, the variant ‘high performance work systems’ implies an integration of HCM and work methods associated with ‘total quality management’ (TQM) or lean production. Others see flexible production systems characterised by “bundles” of ‘high commitment’ practices (MacDuffie 1995). Pil & MacDuffie (1996) explicitly depart from the practice to label innovative work practices ‘high performing’, using the term ‘High-Involvement Work Practices’ instead, pointing out that they consider this more appropriate given the “absence of clear empirical tests of their actual link to economic performance” (op. cit., p. 423). A distinct strain of HPWP/HPWS as identified by Wood (1999) takes ‘high performance’ literally i.e. through an emphasis on the pay-performance link so that high performance is not treated as an indirect outcome (via a change of attitudes and commitment, for example), but targeted directly through the use of performance management methods such as goal-setting and linking pay directly to performance (Huselid & Becker 1996, Becker & Huselid 1998a, 1998b). This understanding of HPWP is succinctly summarised by Berg (1999, p. 114): “High performance work practices are primarily designed to increase firm performance, not to influence the psychological state of workers.”

HPWS are commonly contrasted with the rigid traditional Taylorist work systems with tight job specifications and limited autonomy (Edwards & Wright 2000, Wood 1999). Not surprisingly, there is no single and undisputed definition as to what constitutes a high performing work system (Gephart & Van Buren 1996, Edwards &

Wright 2000), yet the definitions share some common ideas (Gephart & Van Buren 1996). For example, Appelbaum & Berg (1999) suggest that a HPWS is a form of work organisation providing employees with opportunities of *participating* in decisions that includes human resources practices providing employees with *skills* as well as offering *incentives* to ensure effective participation. Without offering an explicit definition, Berg (1999) sees HPWS in similar threefold categories that could be named *involvement*, *motivation* and *training*. An important point repeatedly referred to in the discussion is that HPWS are indeed to be treated as systems, i.e. HPWS are not about the adoption of isolated components of HPWS e.g. employee involvement practices, but about the adoption of mutually reinforcing practices sometimes referred to as internal fit (Gephart & Van Buren 1996, Becker et al. 1997, Huselid 1995, Kling 1995).

The claims of an HRM- or HPWS-induced effect on organisational performance have indeed become increasingly assertive (Purcell 1999, Ramsay et al. 2000) as illustrated by the following quotations:

“The implication of this research is that high commitment management is universally applicable” (Wood 1995, p. 57)

“[T]he use of high performing work practices and good internal fit should lead to positive outcomes for all types of firms.” (Huselid 1995, p. 644)

“They [the results, M.E.] show decisively that people management practices have a powerful influence on performance.” (Patterson et al. 1998, p. VII)

“[T]he proposition that the quality of human resource management critically affects firm performance is self-evident truth. There is absolutely no need to ‘prove’ the existence of a relationship between labour management and performance in profit-seeking enterprise.” (Boxall & Steeneveld 1999, p. 443)

The 1990s saw a substantial amount of empirical research carried out attempting to confirm a link between sophisticated HRM and enhanced performance, and the above quotations are at least in part inspired by the findings of this research, despite the fact that these results were largely gathered through cross-sectional studies unable to assess the important question of the direction of causality. Furthermore, empirical research has been limited in regard to the causal path involved in this linkage, much of which is assumed rather than tested (Purcell 1999). According to Paauwe & Richardson (2001, p. 1087), the focus of empirical research on the relation of HRM to performance is a sign for increased maturity in the debate on HRM as

“naïve prescription and the potentially sterile definitional scholasticism” are left behind at last. The focus of this section shall remain conceptual, and empirical results are discussed in detail in Chapter 2.3. The following section discusses the contents of the ‘black box’, i.e. the processes by which HRM is assumed to contribute to organisational performance.

2.2 The ‘black box’ – how does HRM contribute to performance?

What are the key claims made in the literature on the processes by which HRM contributes to performance? According to the Oxford Advanced Learner’s Dictionary (1989, p. 991), a process is “a series of actions or operations performed in order to do, make or achieve something”. For the purpose of clarification and illustration, the ‘black box’ can be described as being located between an input (i.e. HRM) and an output (i.e. performance) concept. Inside the ‘black box’ the transformation of the input occurs so that a particular output is achieved. The following discussion describes HRM as input and organisational performance as output concepts (Chapter 2.2.1) and then reviews alternative theoretical perspectives on the processes of the transformation of the input within the ‘black box’ (Chapter 2.2.2).

2.2.1 Input and output concepts

It has been mentioned above that advanced’ or ‘sophisticated’ HRM has positive effects on performance. In order to be able to evaluate which type of input can be expected to have particular effects on performance, a clearer understanding of what constitutes advanced HRM is required.

Becker & Gerhart (1996) found that in five selected studies operationalising HRM, no advanced HRM practices were prevalent in all studies and only two (i.e. problem-solving groups and self-directed teams) were used in four studies. Similarly, Dyer & Reeves (1995) noted that, in four studies reviewed, only one was used in all of them and that 22 out of 28 practices appeared in one study only.

In my own review, these findings are confirmed on a larger scale. Of the 55 empirical studies reviewed here which had been identified through online literature databases (see Appendix A 1 for an overview), 40 use a list of 'high commitment', HPWS or otherwise advanced HRM practices. Excluded are those that did not use a number of practices which are implicitly or explicitly described as innovative, advanced, high performing or high commitment (e.g. Katz et al. 1985 whose starting point are IR outcomes rather than HRM practices); those which suggested different, equally successful, types of advanced HRM systems (e.g. Cappelli & Crocker-Hefter 1996); and those which do not use a particular set of HRM practices, but concentrate on the change of practices over time (e.g. Boxall & Steeneveld 1999, Hutchinson et al. 2000). Table 2 illustrates the agreement between researchers on which practices constitute HPWS, HCM or 'advanced' HRM practices in 40 empirical studies through the relative frequencies with which these practices were referred to by the different authors (i.e. Appelbaum et al. (2000), Arthur (1992, 1994), Bae & Lawler (2000), Becker & Huselid (1998b), Berg (1999), Berg et al. (1996), D'Arcimoles (1997), Dunlop & Weil (1997), Deery & Iverson (1999), Delaney & Huselid (1996), Fey et al. (2000), Guest & Hoque (1994), Guest (1999), Hoque (1999a), Huang (2000), Huselid (1995), Huselid & Becker (1996), Ichniowski et al. (1997), Ichniowski & Shaw (1999), Jayaram et al. (1999), Kalleberg & Moody (1994), Kelley (1996), Khatri (2000), Koch & McGrath (1996), Lähteenmäki et al. (1998), Lau & May (1999), Lee & Miller (1999), Lincoln & Kalleberg (1996), Liouville & Bayad (1998), MacDuffie (1995), McNabb & Whitfield (1997), Meyer & Smith (2000), Michie & Sheehan-Quinn (2001), Patterson et al. (1998, 2000), Ramsay et al, (2000), Tsui et al. (1997), Wang et al. (1999), Wood & de Menezes (1998) and Youndt et al. (1996)).

Note that this table lists only the practices and the frequencies with which they are used in the literature. The frequencies indicate thus the degree of agreement between researchers as to what constitutes advanced HRM, labelled HPWS, HIM, HCM, or HPWP. This is discussed after presenting Table 2. The widespread synonymous use of the different terms in the literature is also adopted by myself in the following discussion.

Table 2: Distribution of advanced HR practices

HR area	Practices	Frequencies	
		Absolute	Relative %
Work organisation/ design	Teamwork	10	25.0
	Self-managed / self-directed teams	6	15.0
	Flexible/broad job design	7	17.5
	Job rotation	5	12.5
	Formal job analyses	3	7.5
	Design to maximise skill utilisation	3	7.5
	Cross-functional teams	1	2.5
	Explicit job descriptions	1	2.5
Recruitment & selection	Flexible working practices	1	2.5
	Valid recruitment and selection methods / test	13	32.5
	Staffing selectivity	4	10.0
	Trainability as criteria	4	10.0
	Realistic job previews	3	7.5
	Validation studies for selection methods	2	5.0
	Extensive screening	1	2.5
	Technical & problem-solving skills as criteria	1	2.5
	Social skills as selection criteria	1	2.5
Teamwork skills as selection criteria	1	2.5	
Training & skills	Varied sources for recruitment	1	2.5
	(Formal) training and education	23	57.5
	Training for technical and problem-solving skills	4	10.0
	Cross-training / multi-skilling / training for flexibility	6	15.0
	Informal training	2	5.0
	General skills training	3	7.5
	Training for old and for new employees	2	5.0
	High training investments	2	5.0
	Explicit policy for prescribed minimum training	2	5.0
	Deliberate development of the learning organisation	2	5.0
	Training needs analysis	3	7.5
	Training with long-term orientation	2	5.0
	Cost-benefit analyses	2	5.0
	Long-term orientation	2	5.0
	Off-site training for all	1	2.5
	Training for effective teamwork and team leadership	1	2.5
	Craft-apprenticeship programmes	1	2.5
Training for future jobs and career development	1	2.5	
Team-oriented training	1	2.5	
Training evaluation	1	2.5	
Participation & involvement	Quality circles / problem solving teams / off-line teams	13	32.5
	High involvement of employees, formal programmes (including QWL)	12	30.0
	Autonomous decision making and decentralisation	11	27.5
	Quality responsibility at low level	3	7.5
	Involvement in target setting	3	7.5
	Multiple team membership	2	5.0
	Involvement in change of work rules/practices	2	5.0
Management of materials and work in progress at low level	1	2.5	
Appraisals	Formal and regular appraisals	9	22.5
	Evaluation based on work unit performance	2	5.0
	Coherent and widely applied appraisal system	1	2.5
	Appraisal based on objective criteria	1	2.5
	Long-term appraisal criteria	1	2.5
	Integration of appraisals with other HRM aspects	1	2.5
	Behaviour based appraisal, developmental	1	2.5
	Training for appraiser	1	2.5
Monitoring system for correct application of appraisals	1	2.5	

Table 2 continued			
HR planning & Promotion	Internal promotion	19	47.5
	Career planning efforts	4	10.0
	Merit promotion	4	10.0
	Formal planning activities	4	10.0
	Long range HR and development planning	2	5.0
	Broad career paths	1	2.5
	Explicit promotion criteria	2	5.0
Compensation & benefits	Performance related pay / merit pay	12	30.0
	Incentive pay	10	25.0
	Competitive/comparatively high wages/external equity	10	25.0
	Profit or gainsharing plans	9	22.5
	Stock ownership options	6	15.0
	Salaried status for all / monthly pay	3	7.5
	Team-based pay or incentive	3	7.5
	Fair pay	2	5.0
	Hourly rate pay with or without group bonus	2	5.0
	Pay determined by appraisals	2	5.0
	Little wage inequality / internal equity	2	5.0
	Fringe benefits and welfare programmes	2	5.0
	Flexible reward packages	2	5.0
	Extensive benefits	1	2.5
	Combined job classes	1	2.5
	Unique or unusual benefits	1	2.5
	Health & retirement plans	1	2.5
	Cashless pay	1	2.5
	Fast increasing wages	1	2.5
	Skill-based compensation	1	2.5
Seniority-based compensation	1	2.5	
Communication	Management-worker/union meetings / committees	13	32.5
	Formal and regular communication efforts	11	27.5
	Formal due process/grievance procedures	9	22.5
	Information about organisational /financial performance	9	22.5
	Regular attitude surveys	7	17.5
	Regular communication with relevant others inside and outside team and company	1	2.5
Other	Employment security	15	37.5
	High extent of harmonised terms and conditions	4	10.0
	Induction and socialisation programmes	5	12.5
	Single status	5	12.5
	Sensitivity for work and family needs	4	10.0
	Managerial involvement in HRM	3	7.5
	Integration of HRM and competitive strategy	3	7.5
	High skill and flexibility requirements	2	5.0
	Strategic quality of HR function	2	5.0
	Union recognition	2	5.0
	TQM	2	5.0
	Assistance to employees if dismissals are unavoidable	1	2.5
	High social expenditures	1	2.5
	Opportunities for women and minorities	1	2.5
	No clocking in	1	2.5
	Bullying and harassment policies	1	2.5
	Long-term HRM orientation	1	2.5
	Fair treatment	1	2.5
	Low vertical hierarchy	1	2.5
	Concern for employee well-being	1	2.5
	Comparatively high investment in HRM	1	2.5
	Internally consistent HR practices	1	2.5
	Improving working conditions	1	2.5
	Investors in People (IIP)	1	2.5
	EEO/ diversity management	1	2.5

As can be readily seen from Table 2, there is diversity of opinion as to which practices are “advanced”. However, it must be borne in mind that some authors only use few and imprecise proxies of such advanced HRM practices. For example, Kalleberg & Moody (1994) explicitly acknowledge that their selection of practices is limited; McNabb & Whitfield (1997) use only two practices and examine their interaction effects with unionisation. Patterson et al. (2000) examine interaction effects of integrated manufacturing and ‘empowerment’ which contains many selection, teamworking and appraisal related practices, but no compensation or communication practices. Authors like Huselid (1995), Ramsay et al. (2000) or Khatri (2000), in contrast, use comprehensive and detailed lists including up to 24 practices (Ramsay et al. 2000).

Despite this lack of consistency in the approach to study of the concept, it is obvious that there is higher agreement as to the inclusion of *some* of the practices. In particular, teamwork, self-managed and self-directed teams, flexibility in terms of job design, sophisticated selection, formal training programmes, quality or problem-solving teams, formal programmes for participation and involvement, autonomy in decision making, formal performance appraisals, internal promotion opportunities, performance related and incentive pay, high pay, profit sharing and share options, formal and regular communications efforts between management and employees, attitude surveys and employment security are seen by empirical researchers more frequently as practices that constitute HPWS, as illustrated by the relative frequencies listed in Table 2. Thus, it can be concluded that, despite considerable disagreement on which practices to include in HPWS, there is a similar (albeit imprecise and nebulous) comprehension in many studies on the direction or principles of HPWS or advanced HRM.

Performance can be understood as both individual job performance and organisational performance. Whereas early models of HRM such as Fombrun et al.’s (1984) and the Harvard model (Beer et al. 1984) appear to emphasise positive HRM effects on the individual level (in the former case as employee performance, in the latter as desirable HR outcomes such as commitment, competence and cost

effectiveness), the later literature appears to focus on organisational performance, in particular the empirical studies on HRM effectiveness in the context of HPWS or HIM (e.g. Huselid 1995, Delery & Doty 1996, Dunlop & Weil 1997).

The diversity of opinion as to what constitutes HRM in general and advanced HRM practices specifically is paralleled by a similar diversity of opinion as to what constitutes organisational performance, as the wide variety of organisational-level outcome variables in Appendix A 2 illustrates. Common operationalisations range from productivity to firms' market value, lead times, operating profits, quality, sales growth, asset growth, perceptions of public image and various established financial measures such as Return on Assets (ROA), Return on Capital Employed (ROCE), Gross Rate Return on Assets (GRATE), and Tobin's q . Moreover, the same variable is operationalised in different ways by different researchers (e.g. productivity is defined as production hours per unit of output by Kelley 1996, as sales per employee by Huselid 1995 and as line uptime by Ichniowski et al. 1997, 1999).

The diversity in organisational performance measures reflects, as mentioned, a lack of agreement between researchers about what organisational performance is and how it is to be operationalised. More importantly, the different measures also reflect a more serious disagreement on the adequate level of the analysis. Whereas, for example, Tobin's q (used by Huselid 1995, Huselid & Becker 1996, Huselid et al. 1997) clearly is a *firm-level* measure of *corporate* financial performance (ibid.), productivity as described in the previous paragraph is usually a measure of *operational* efficiency (as used by Kelley 1996 and Ichniowski et al. 1997, 1999) with relevance on a organisational unit or plant level, even though Huselid (1995) provided a operationalisation of the same concept adapted for use at the corporate level.

Becker & Huselid (1998a) and Huselid & Becker (2000) strongly argue in favour of using *firm financial performance* as the dependent variable. In the earlier paper it is acknowledged that the corporate level is not the only appropriate level of analysis, but "ultimately the *raison d'être* for a strategic HRM role in the firm." (Becker &

Huselid 1998a, p. 70). In the later paper the case for this argument made more strongly arguing that the HRM contribution to firm financial performance is “the most relevant research question” (Huselid & Becker 2000, p. 848). However, practical availability of firm financial data appear to have influenced the choice also:

“We could have chosen to focus on plant or business units, but objective measures of financial performance are generally not available for such organizations.” (ibid.).

Becker & Gerhart (1996) suggest that the appropriateness of a dependent variable depends on the level of analysis, i.e. market-based measures are more appropriate for corporate-level analyses than accounting-based figures such as ROA. These authors acknowledge that businesses can vary substantially according to objectives pursued so that some units aim for profitability whilst others strive for growth or higher market share. Wright et al. (2001) draw attention to the fact that choosing the corporate level for the analysis may be entirely inappropriate due to great variability of both HRM practices between business units and their profitability due to reasons specified by Becker & Gerhart (1996).

Organisations are likely to face idiosyncratic, “real business problems” (Becker & Gerhart 1996, p. 794) which can include “problems such as product development cycle times, customer service, and so forth.” (ibid.) Relying exclusively on standard measures cannot capture those specific goals and problems, and hence HRM effects directed to support those specific goals are not adequately measured.

Conventional financial measures of firm performance can have serious shortcomings and limited informational value (Neely 1999, Neely et al. 2000). In addition, different performance objectives might have an adverse impact on each other (Bamberger & Meshoulam 2000). According to these authors, “to assume that a given set of financial indicators reflects a consensus among all organizational constituencies regarding organizational goals is, to put it bluntly, somewhat naive.” (ibid., p. 181). Standard financial indicators might also lack validity as criterion measures and fail to indicate the real rent generated by the firm since different stakeholders can appropriate varying degrees of the generated rent (Coff 1999). In

their book in financial performance measurement and shareholder value, Warner & Hennell (1998, p. 12) note:

“Financial measures are important but they are, in the end, only the way in which the score is kept. Successful performance is the result of a whole series of actions taken by managers in running the business, having regular contact with customers, motivating employees and setting up a wide range of systems and processes. However good the financial measure and however good current performance may be, the potential for future shareholder value can be lost if the more intangible and non-financial aspects of the business are forgotten.”

Hence, even when using the firm level as point of departure for an analysis, it must be noted that shareholder value or financial measures are translated into performance objectives useful and understandable to operational managers. “As these are cascaded down, there will come a point where the measure does not necessarily have to be financial.” (Warner & Hennell 1998, p. 13).

It cannot come as a surprise, then, that Kaplan & Norton’s (1992) ‘balanced scorecard’ approach including financial and non-financial performance concepts (i.e. customer, innovation and learning as well as internal business perspectives) has influenced recent thinking (Warner & Hennell 1998), and compared with a decade ago, the language of balance in measures of business performance has become widely accepted. There is now – albeit limited and inconclusive – evidence for the benefit of such “performance measurement revolution” (Neely 1999, pp. 208).

The brief discussion in this section has shown that a focus on financial performance *alone* in the HRM-performance debate does not reflect the current state of research and argument relating to the concept of performance. For research on HRM and performance to be meaningful, the performance variables should not entirely rely on financial measures, but include non-financial measures idiosyncratic to particular organisations or parts of these. Ideally, the level of analysis should be one that allows for the investigation of effects of relatively uniform HR practices (as opposed to diverse practices as is the case on the firm level) and where the effects can be conceived of as being more imminent to the hypothesised causes, i.e. HRM practices (see Wright et al. 2001).

2.2.2 Explaining the ‘black box’ – theoretical perspectives

This section summarises four different theoretical perspectives which help explain the ‘black box’, i.e. the processes by which HRM contributes to performance. According to the *strategic perspective*, HRM contributes to performance through its alignment with business strategy or through application to particular employee groups central to achieving strategic objectives. The conventional *HRM logic* holds that advanced HRM practices affect employee behaviours which in turn influence performance. The HRM logic is critiqued by the *Labour Process logic* which presents an alternative to the optimistic HRM models. The Resource Based View of the firm (RBV) focuses on unique, inimitable and valuable firm-internal resources which contribute to performance. Following the discussion of these theoretical perspectives, issues related to the *implementation* of HRM are discussed by highlighting the role of key actors and the importance of their cognitions in organisational decision making.

2.2.2.1 Strategic perspective: design of HRM systems

The central idea discussed by researchers and proponents of the strategic perspective is twofold. Strategy theorists such as Porter (1980, 1987, 1990) and Miles & Snow (1984) posit that firms with a clearly defined strategy outperform those without a clear strategy. The SHRM argument building on these frameworks extends the argument by claiming that these generic business strategies require support from properly aligned HRM systems to enjoy superior performance to those not achieving such alignment (e.g. Schuler & Jackson 1987). With respect to the illustration of the ‘black box’, the strategic perspective would argue that it is the *transformation* of the input HRM resulting in a particular design of HRM in response to strategic imperatives. Two strands of argument can be identified within the strategic perspective. The first holds that HRM and organisational strategy have to be aligned to increase HRM effectiveness. The second posits that HRM is to be applied to particular employee groups central to the achievement of the organisation’s objective.

2.2.2.1.1 HRM-strategy alignment

Even though the necessity of strategic integration of HRM and organisational strategy is frequently stressed (Hendry 1995, Fisher et al. 1996), there is disagreement on how HRM and strategy interact.

Torrington & Hall (1998) describe the various degrees of such interactions, ranging from separation (as in unstrategic personnel management), a reciprocal linkage (Lengnick-Hall & Lengnick-Hall 1988) to a conception of HRM with crucial influence on business strategy (Butler 1988, 1991). Two conceptions of business strategy are particularly popular in the literature (and used in the empirical studies to be reviewed in a later chapter): Miles & Snow's (1984) and Schuler & Jackson's (1987) typologies. Their common theme is that for a certain business strategy there are only very limited HRM choices (Mabey & Salaman 1995).

Before progressing to a more detailed discussion on the interaction of HRM and strategy, the strategy concept requires some clarification. Strategy, according to Purcell & Ahlstrand (1994, p. 27) "is associated with the long-term decisions taken at the top of the enterprise and distinguished from operational activities". This corresponds to what Hill & Jones (1992) see as a 'traditional' approach to strategy – hierarchy- and planning-based – and contrast this with a 'new approach'. According to Purcell & Ahlstrand (1994), the traditional definition is, however, somewhat oversimplistic since corporate managers can be involved in operational activities as well as vice versa staff in business units can be given autonomy formulating their own business strategies or contribute to corporate strategy. Thus, more constructively, strategy is better defined by looking at characteristics of strategic managerial decisions. Johnson (1987) proposes that such decisions are concerned with the long-term direction of the organisation, the scope of the organisation's activities, the matching of organisational activities to the environment, and the matching of the organisation's activities to its resource capability.

A further way to approach the strategy concept can be sought by differentiating different levels of strategy (Hendry 1995). Quinn (1991) identifies five such levels:

goals or objectives in a broad or more specific sense, *policies* which are rules or guidelines defining frameworks for action, *strategic plans* i.e. patterns or plans integrating goals and policies into consistent whole, *strategic decisions* determining the overall direction by resource allocation issues, and *programmes* which Quinn defines as step-by-step series of actions required to achieve major objectives which provide a yardstick against which to measure the degree of achievement of goals.

Strategic decisions differ from operational day-to-day decisions in that they involve a higher degree of uncertainty and risk-taking, they require cross-boundary integration of management, involve change issues such as resource mobilisation and power as well as persuasion of course of actions in an uncertain future (ibid.). This reflects the important theme of whether strategy or strategic management can be treated as rational and planned activities. Widely recognised now is Mintzberg's (1978) argument that conceptualising strategy formulation as purely rational and planned activity is unhelpful as well as unrealistic. Rather, one needs to acknowledge that the finally realised strategy has both deliberate and emergent components (ibid.) which can arise from changing external pressures and internal political constellations (Tyson 1997).

Despite above mentioned difficulties of conceptual distinction and bearing in mind emergent strategy issues, it is worthwhile to differentiate between different levels of strategy. Porter (1987) distinguishes 'business unit' and 'corporate' strategies, and Wheelen & Hunger (1990) add additionally 'functional' or departmental strategies. Corporate strategy, according to Porter (op. cit.) is concerned with what kind of business activities the organisation should compete in and how the corporate office should manage the array of business units whereas the business unit is concerned with 'competitive strategy' aiming at an answer to the question of how to create competitive advantage within a certain business unit. One of the basic 'facts' of business life is that competition occurs at the business unit level (ibid.). Porter (1980, 1990) asserts that business units need to concentrate on either a) *cost leadership* aiming at market advantage through a price below that offered by competitors, or b) *differentiation* (quality enhancement) which involves attempts to gain competitive

advantage to perceived higher quality products offered. *Focus* is a strategy involving either a) or b) and focuses specifically on a certain market or customer group. Thus, direct competition with other companies is avoided by targeting a niche market.

Innovation is seen by Porter as further way to gain an advantage in the marketplace. While Schuler & Jackson (1987) interpret innovation as a distinct strategy, innovation in Porter's (ibid.) work is better understood not as being embedded in a process of organisational learning by constantly seeking new and better ways to compete, usually resulting from utilising opportunities arising from discontinuities in the industry structure (see also Hendry 1995).

Another widely used typology was developed by Miles & Snow (1984) who suggest that there are only three fundamental organisational strategies:

- a) *Defenders*: These organisations operate in predictable markets with narrow and stable product market lines, aim to grow through deep market penetration. R & D is concentrated on product improvement, and production is high-volume and low-cost oriented, emphasising efficiency and process engineering;
- b) *Prospectors*: Unlike Defenders, organisations with this strategy orientation compete in changing markets with diversified product lines and aim to grow through product development and actively influence market development by experimenting with new opportunities. They target their extensive R & D at early newly developed product launch. Prospectors' production is customised and prototypical, emphasising effectiveness and product design.
- c) *Analysers*: These incorporate elements of both defenders and prospectors, aiming at efficient production in their stable product areas and adoption of new promising market trends in their more innovative areas. Their R & D focuses on specifically those trends which appear promising in the market (as observed from prospectors), emphasising a 'second-to-market' strategy. Production, depending on product lines, is low-cost and high-volume oriented as well as (to a limited

extent) prototypical. Analysers focus on process engineering as well as product/brand management.

Miles & Snow (op.cit.) briefly describe a fourth type, *Reactor*, characterised by strategy-environment inconsistency or poor strategy-structure-process alignment and argue that *Reactors* are less successful than the consistent other types. Without explicitly referring to Porter, Miles & Snow (1984, pp. 41) see their own typology broadly consistent with Porter's.

“Although the language may be new – low-cost-producer (Defender), product differentiator (Prospector), focused operation or nichemanship (Analyzer) – the overall strategic orientations are essentially the same.”

Mabey & Salaman (1995) distinguish between ‘open’ and ‘closed’ approaches to HR strategy. The latter are characterised by predefined goals or practices supporting any type of business strategy whilst the former are dependent on business strategy. Central to open approaches is the concept of ‘fit’. Milgrom & Roberts (1995, p. 205) see the ‘fit’ concept as “intuitive and often vague”. However, there are attempts to define the concept. Nadler & Tushman (1989) propose a definition of fit as

“the degree to which the needs, demands goals, objectives and/or structure of one component are consistent with the needs, demands, goals, objectives, and/or structure of another component”.

Fit between different HR policies is commonly referred to as ‘internal’ or ‘vertical’ fit, and fit between HR policies and organisational strategy is often termed ‘external’ or ‘horizontal’ fit (Delery & Doty 1996, Huselid 1995).

A common classifications of theoretical approaches to strategic HRM design was developed by Delery & Doty (1996). Firstly, the *universalistic or ‘best practice’ approach*: holds that some HR practices (see discussion of HPWS) are always better than others (Pfeffer 1994, Huselid 1995). Secondly, the *contingency perspective* is based on the central idea that a requirement for organisational effectiveness is strong consistency of HRM elements with other organisational aspects, particularly with business strategy (Schuler & Jackson 1987, Lengnick-Hall & Lengnick-Hall 1988). Typically, contingency here is understood as what was described as ‘external fit’

above. Finally, the *configurational approach* is based on typologies of ideal types (as opposed to categorical classifications which are observable phenomena) and on assumptions of equifinality, i.e. organisations with different forms can be equally effective (Doty et al. 1993, Doty & Glick 1994, Delery & Doty 1996). Configurational approaches integrate internally consistent HRM practices with alternative strategic configurations i.e. combine internal and external fit (Delery & Doty 1996).

A similar typology is proposed by Guest (1997) who differentiates internal, external and configurational fit. Guest's definitions for external and configurational fit reflect the descriptions given above, but he suggests that 'internal fit' is identical with "HRM as an ideal set of practices" (op. cit., p. 272). Interestingly, this illustrates a lack of clarity of the concept of internal fit. In Delery & Doty's (1996) classification internal fit on its own is not acknowledged, only as *part* of the configurational approach. Guest's (1997) interpretation of equating internal fit with the universalistic perspective, however, misses the point, because as Delery & Doty (1996) note, universalistic arguments are

"the simplest form of theoretical statement in the SHRM literature because they imply that the relationship between *a given independent variable and a dependent variable* is universal across the population of organizations." (p. 805, emphasis added).

Thus, the universalistic perspective implies an additive understanding of HPWP which is acknowledged by Guest who notes that "the more of the high performance HRM practices that are used, the better the performance" (Guest 1997, p. 272), but does *not* make any statements of the *internal* relationships among HRM practices. Guest's understanding is obviously based on the implicit assumption that HRM practices are mutually complementary per se. On a conceptual level, it would be more useful and precise to maintain a clear theoretical distinctions between the concepts.

As an addition to Guest's (op. cit.) typology, Hoque (1999a) suggested the category *universal relevance*. Depending on market conditions, the adoption of a certain

business strategy can be required which in turn necessitates a specific, then universally relevant HRM approach.

Venkatraman (1989) proposes more precise definitions of fit than the above by introducing the following classificatory framework:

- a) *Fit as moderation*: A criterion variable is determined by the fit between a predictor and a moderator variable.
- b) *Fit as mediation*: Whilst in a) the *interaction* of two variables has an effect on the criterion variable, here an indirect effect through a moderator variable is predicted.
- c) *Fit as matching*: Unlike a) and b), this perspective does not require a criterion variable, but fit here is a “theoretically defined match between two related variables” (Venkatraman 1989, p. 430)
- d) *Fit as gestalts*: Unlike a) to c), here many more variables are involved whose internal coherence form ‘clusters of attributes or gestalts’ (Miller 1981). As c), fit as gestalts is defined as criterion-free.
- e) *Fit as profile deviation*: In this perspective, fit is specified as the degree to which a number of variables diverge from an externally specified profile. This profile is anchored to a specific criterion (e.g. performance) which illustrates the difference between d) and e).
- f) *Fit as covariation*: This perspective is described as “pattern of covariation or internal consistency among a set of underlying theoretically related variables” (Venkatraman 1989, p. 435). Conceptually, fit as covariation appears very similar to d), however, the functional form is specified differently. Gestalts are seen as groups of observations based on certain attributes (through cluster analysis), whereas fit as covariation is modelled as factor analysis (i.e. groups of attributes based on set of observations).

To summarise the HRM design approaches, the universalistic view holds that HRM has a universal positive effect in any setting, i.e. irrespective of strategy; the contingency view proposes that organisations fitting HRM to business strategies perform better than those that do not; the configurational approach predicts better

performance for those whose HR system more closely resembles certain ideal types; and the universal relevance view proposes that a context can imply the superiority of a certain strategy which needs to be supported by adequate HRM choices.

Schuler & Jackson's (1987) and Miles & Snow's (1984) models are widely used examples of what Boxall (1992) terms the 'matching model' (p. 67) and what was described in simple terms as 'external fit' above. Based on Porter's strategy types (1980, 1990), Schuler & Jackson (1987) define both HRM practices and role behaviours (see Chapter 2.2.2.2) which are stimulated through the HRM practices 'matching' with these types. Miles & Snow (1984) include in their strategy classification the HRM policies that should support them.

Quality-enhancement requires HR policies which include relatively fixed and explicit job descriptions, high employee participation in decisions relevant to work conditions and the job itself, a mix of individual and group criteria for performance appraisal which is results and short-term oriented, relatively egalitarian treatment of employees and some guarantees of employment security, and extensive and continuous training (Schuler & Jackson, pp. 213).

Innovation strategies, in contrast, are said to require the following HRM practices: jobs that require close interaction and coordination among groups of individuals, longer-term and group-based performance appraisals, jobs allowing the development of skills useful in other positions, internal-equity focused compensation systems, low basic pay, but stock options and flexible compensation packages, and broad career paths (Schuler & Jackson p. 213)

Cost-reduction strategies are facilitated by HRM practices characterised by relatively fixed, explicit and unambiguous job descriptions, narrowly defined jobs and career paths encouraging expertise and specialisation, short-term and results-oriented appraisals, close monitoring of market pay levels for compensation, and minimal training and development (ibid.).

Even though this derivation of HR practices and required role behaviours seems logical and straightforward, Lee & Miller (1999) argue that a prerequisite for the pursuit of *any* strategy of the above is the dedication with which it is pursued. The different strategies might well require different programmes targetting inventory management and operation costs reduction for the cost reduction approach, for example, but regardless of the programme and the strategy it serves, organizational commitment to employee well-being is required to gain the commitment and support from the workforce for its successful execution. This example serves to illustrate that taking Porter as a basis for theoretical HR strategy development seems less straightforward than it might seem at first glance. A further point, added for the sake of completeness, is that Porter (1987) sees HR not only confined to business-level activities, but acknowledges an explicit HR contribution within the corporate level value chain through synergistic cross-business skills transfer.

Unlike Porter, Miles & Snow (1984) include in their business strategy typology the required HR orientations and is thus less ambiguous in the above respect. *Defenders* apply a basic strategy of “building” or “making” human resources (Miles & Snow, p. 49), i.e. there is little recruiting above entry level. Rather than hiring suitable employees from the market, defenders use formal, extensive skill-building and training programmes. Performance appraisal is process oriented, incorporates training needs identification, targets the individual and the group and uses time-series comparisons. Compensation is oriented at the position of the employee, internal consistency, and cash compensation.

Prospectors, unlike defenders, “buy” or “acquire” (ibid.) human resources. There are sophisticated recruitment systems for each level involving psychometric testing. Consequently, training is limited. Performance appraisals are results-oriented, aim at the identification of staffing rather than training needs, evaluate divisional/corporate performance and cross-sectional comparisons (i.e. benchmarking other companies). The compensation system is performance oriented, with a focus on external competitiveness and incentives.

Analysers orientate their HRM towards assisting management in allocating people and management processes according to the requirements of the two different business activities. Hence, “make” and “buy” approaches are combined and recruitment and selection approaches are mixed. There is both skill building and acquisition, but limited outside recruitment. Performance appraisals are primarily process oriented and aim to identify both staffing and training needs. Performance assessment takes place at all levels, employing both time-series and cross-sectional comparisons. Compensation is mostly hierarchy-oriented, but includes some performance considerations. Both internal consistency and market competitiveness need to be taken into account. Furthermore, there a combination of cash and incentive compensation is utilised.

The ‘matching model’ (Boxall 1992), illustrated by the above examples, has not gone unchallenged. “It is the firm’s chosen path in the product market that is seen to determine HR strategy. Other aspects of the organisational context are more or less ignored.” (p. 66). A fundamental point made by Boxall (1992) is that there is no single HR strategy for all employees of an organisation which is empirically confirmed by Jackson et al. 1989 who also found that practices vary with production technology, industry sector, organisational structure, size, and union presence. Another problem with the matching model in the form discussed is that business strategies such as Porter’s or Miles & Snow’s are assumed a valid starting point which in itself is controversial (Boxall 1992). Murray (1998), Hill (1988), Miller & Friesen (1986) and Parnell (1997) cast doubt on the assertion that the business strategies are mutually exclusive.

A further criticism centres on the desirability of fit. Too tight fit might be counterproductive in the presence of conflicting organisational goals or an environment requiring organisational change or it can obstruct innovation and skill development (Lengnick-Hall & Lengnick-Hall 1988). However, Wright & Snell (1998) note that whilst Lengnick-Hall & Lengnick-Hall (1988) imply a mutually exclusive understanding of fit and flexibility based on an “orthogonal” perspective, Milliman et al. (1991) argue in favour of a “complementary” perspective (p. 208).

The latter perspective conceptualises fit as temporary state at some point in time with internal (HRM aspects) as well as external (strategy) components. In contrast, flexibility is an organisational (thus internal) attribute or characteristic and refers to the “ability” (Sanchez 1995) “to meet a variety of needs in a dynamic environment” (Wright & Snell, p. 208).

Even though all of the above criticisms do appear to have some validity, they do not suffice to deny the theoretical appeal of the matching model, but rather focus on additional issues which need to be taken into account when trying to operationalise or test it. For example, rather than building the analysis on very simplified generic strategy types, one could focus on the business-specific key objectives to analyse ‘idiosyncratic contingencies’ (Becker & Gerhart 1996, p. 794), i.e. the alignment of HR systems with the organisational management infrastructure whereby HR contributes to solving unique business problems. According to Becker & Gerhart (ibid.), “HR systems only have a systematic impact on the bottom line when they are imbedded in a firm’s management infrastructure and help it solve real business problems such as product development cycle times, customer service, and so forth.”

The approaches mentioned so far appear to imply that the contingency and universalistic perspective are mutually exclusive. However, Becker & Gerhart (1996) note that this is due to a “confusion regarding the level of analysis” (p. 786). Becker & Gerhart (op. cit.) distinguish the three levels of HR system, i.e. *architecture* (overall guiding principles), *policies* and *practices* (specific HR techniques such as performance appraisal or incentive compensation). These authors point out that a best practice effect is most likely to be found at the architectural level e.g. the guiding principle that employee performance is rewarded and valued whereas internal and external alignment issues become relevant at the policies and practices levels.

2.2.2.1.2 Scope of HRM application

Many researchers of the HRM-performance question (e.g. Huselid 1995, Hoque 1999a, Khatri 2000, Youndt et al. 1996) do not address the question whether HPWS are to be applied to all employee groups, or only to some so that higher organisational performance will result. Implicitly however, they seem to conceive HPWS as most effective when applied to many if not all employees. Consequently, Huselid (1995, p. 646), for example, asks respondents for “the proportion of the workforce” to whom the certain practices are applied.

Lepak & Snell (1999, p. 32) argue that it might be “inappropriate to simplify the nature of human capital investments and suggest that there exists a single “optimal” HR architecture for managing all employees.” Instead, four models of ‘HR architecture’, based on human capital’s value and uniqueness are proposed for different employee groups. Value refers to the potential to improve efficiency and effectiveness, exploit market opportunities and to neutralise potential threats. Uniqueness refers to firm specificity of human resources. The possible combinations are illustrated in Figure 2.1.

Figure 2.1: Uniqueness and value of human capital

U n i q u e s s s	high	Creating human alliances <ul style="list-style-type: none"> • employment mode: alliance • employment relationship: partnership • HR configuration: collaborative 	Developing human capital <ul style="list-style-type: none"> • employment mode: internal development • employment relationship: organisation focussed • HR configuration: commitment 	
	low	Contracting human capital <ul style="list-style-type: none"> • employment mode: contracting • employment relationship: transactional • HR configuration: compliance 	Acquiring human capital <ul style="list-style-type: none"> • employment mode: acquisition • employment relationship: symbiotic • HR configuration: market based 	
		low	Value of human capital	high

(adapted from Lepak & Snell 1999, p. 37)

Some positions require both high uniqueness and value. As firm-specific human resource capabilities are by definition not available in the labour market, they have to be internally developed. This internal development employment mode is combined with an organisation focused employment relationship characterised by significant mutual investments. Required for this, according to Lepak & Snell (op. cit.) is an HR configuration reinforcing mutual commitment to maximise the returns. The authors note that this configuration is identical with the HPWS notion.

However, not all positions within the organisation are based on idiosyncratic “core skills” (op. cit., p. 38) necessary for competitive advantage. Employees with valuable, e.g. standard accounting skills are said to fit in this category. There is an incentive to internalise employment. As no firm-specific skills are required this human resource can be readily acquired in the labour market. Due to the transferability of the skills, firms do not make significant investments in these employee groups, but require a market based HR orientation emphasising staffing and market-based pay. A ‘symbiotic’ relationship that continues as long as both parties benefit characterises the employment relationship.

For jobs requiring relatively generic human capital which is also of limited strategic value and openly available in the labour market, an employment mode of ‘contracting’ is regarded as appropriate. For example, leased or temporary employees in clerical or maintenance positions are elements of this category. A ‘transactional’ employment relationship characterises this mode of employment focussed on short-term economic exchanges. Appropriate HR policies are oriented towards ensuring compliance to pre-defined standards, policies training (if at all), job- or results-based pay.

A final possibility is that the job requires highly unique, but not directly valuable skills. Lepak & Snell (1999) use the example of an attorney who possesses highly unique skills, but these do not justify permanent employment; rather, they call for the employment mode of ‘alliance’ whereby both parties benefit through exchanges of expertise. The corresponding employment relationship is a true ‘partnership’

requiring trust and cooperation facilitated by high investments in the relationship including process-oriented programmes such as communication, information-sharing and teambuilding.

The HR architecture, according to Lepak & Snell (1999), consists of the three components employment mode, employment relationship, and HR configuration. From a configurational perspective, they argue that these three components need to be appropriately used according to the value and uniqueness of the human resource to the firm as well as internally aligned.

Lepak & Snell (1999) note that the value and uniqueness of human resources can change resulting from changed competitive positions in the marketplace which can to an extent be counteracted by making human skills more valuable or unique through training and development. This includes a movement of employees between different quadrants so that previously contracted human resources can enter the internal development quadrant.

Though this perspective offers not only an operationalisation of a configurational approach, but it also can, as Purcell (1999) observes, overcome the problem of explaining the obvious lack of diffusion of HPWS-style HRM practices. One would expect that if advanced HPWS-style HRM practices are effective, there should be widespread adoption of such practices. However, both in the USA and the UK (Pfeffer 1996, Wood & de Menezes 1998), there is little evidence for such adoption. Since such HRM is only applied to a limited number of employees on the grounds of value and uniqueness of skills, “questions of diffusion are largely irrelevant” (Purcell 1999, p. 36).

However convincing the argumentation of this model might seem, the implications of the conventional HPWS logic cannot be readily dismissed. *Collective* notions of shop-floor cooperation, the utilisation of “ordinary” employees’ tacit knowledge of work processes for continuous improvement and the means required for creating the necessary trusts and involvement among those employees who would not be

regarded as possessing very valuable and unique skills in Lepak & Snell's (1999) model hint at the imperfections of their approach. Of course, one could define the operators' skills as unique and valuable to fit inside the model, but such a broad definition of uniqueness and value would render the model unusable and blur the distinction between the quadrants central to its conception.

In essence, which of the different theoretical perspectives is more valid is ultimately an empirical question. That is, the conventional HPWS approach would predict higher performance in the presence of comprehensively applied practices, the later HPWS approach modified in the light of the RBV would predict higher performance in the presence of a highly idiosyncratic HPWS integrated with the operational systems (Becker & Huselid 1998a, b), whereas Lepak & Snell's (1999) approach would predict higher performance in the presence of a properly aligned HR architecture as described above, depending on employees' value and uniqueness.

2.2.2.2 HRM logic

The conventional model(s) of thinking proposed by HRM scholars posit that HRM practices have particular behavioural effects on employees, referred to often as the behavioural perspective which underlies most conceptualisations of HRM. These positive effects, often referred to as HR or employee outcomes, are said to subsequently promote enhanced organisational performance. In other words, within the 'black box', a modification of employees' behaviours occurs that is instrumental in achieving the output of organisational performance.

A classic formulation of the behavioural perspective is Schuler & Jackson's (1987) approach to deriving particular behavioural outcomes which are required to support the particular generic strategy type adopted. The HRM practices bringing about these behavioural outcomes have already been described in Chapter 2.2.2.1.1 above. *Quality-enhancement* requires role behaviours which are relatively repetitive and predictable, a longer-term or intermediate focus, a modest amount of cooperative, interdependent behaviour, a high concern for quality, only modest concern for

quantity of output, a high concern for processes of producing/delivering goods/services, low risk taking activity, and commitment to organisational goals (Schuler & Jackson 1987, p. 210).

Innovation strategies, in contrast, are said to require high degrees of creative behaviours, a longer-term focus, a relatively high level of cooperative, interdependent behaviour, a moderate degree of concern for quality, a moderate concern for quantity, equal degree of concern for process and results, a greater degree of risk taking, and high tolerance of ambiguity and unpredictability (Schuler & Jackson 1987, p. 209).

Cost-reduction strategies are said to depend on relatively repetitive and predictable behaviours, a short-term focus, primarily autonomous or individual activity, modest concern for quality, but high concern for quantity and results, low risk taking behaviours, and high degree of comfort with stability (Schuler & Jackson 1987, p. 211).

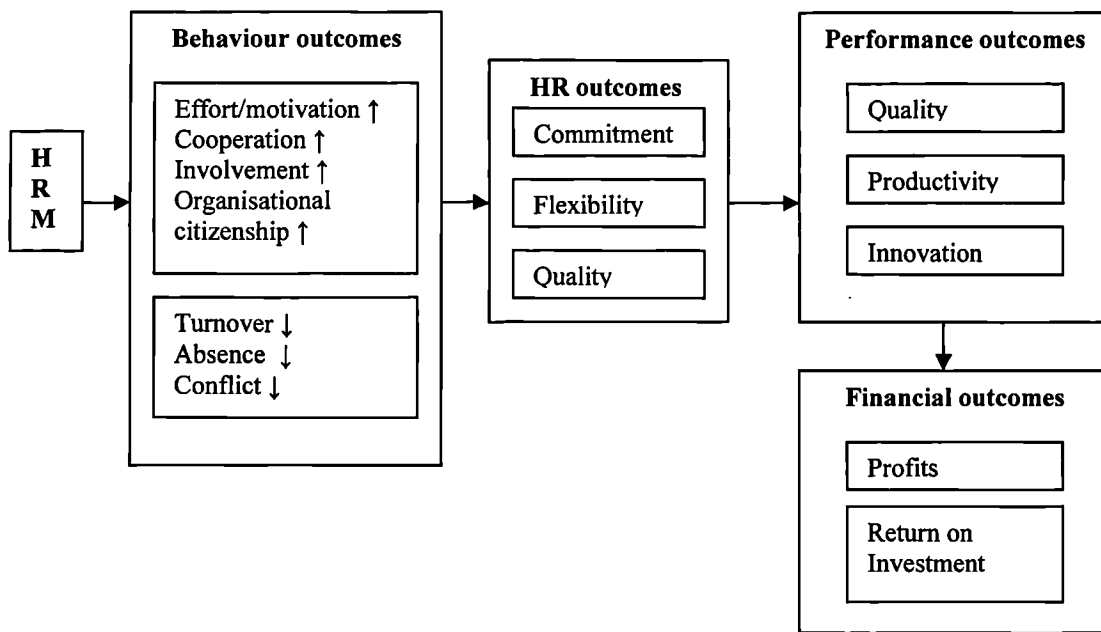
There are several models illustrating the link of HRM to performance, and the most influential ones are briefly described in the following. To begin with, the Harvard model (Beer et al. 1984) posits that HRM policy choices lead to desirable HR outcomes such as commitment, competence, congruence, and cost effectiveness which in turn have positive long-term consequences such as individual and societal well-being as well as organisational effectiveness.

Guest's (1989) model is based on the Harvard model. Four policy goals are described, i.e. strategic integration, commitment, flexibility and quality and labelled 'HR outcomes' (Guest 1989, p. 49). Strategic integration refers to an integration of HRM policies into strategic planning, coherence of HRM policies and use of these by managers in their daily work. Commitment refers to an attachment of employees to the organisation and to a commitment to high performance through their behaviour. Flexibility refers to an adaptable organisational structure and to functional flexibility based on multi-skilling. Quality refers to competent and flexible

employees able to produce high-quality services or products. These HR outcomes lead then to 'organisational outcomes' such as high job performance, problem-solving, change, innovation and cost effectiveness and low turnover, absence and grievances. Note that in contrast to the Schuler & Jackson (1987) argument, Guest (op. cit.) does not assume the necessity of a prior step modifying the HRM input to be in line with organisational objectives. The four 'HR outcomes' are universally relevant irrespective of strategy.

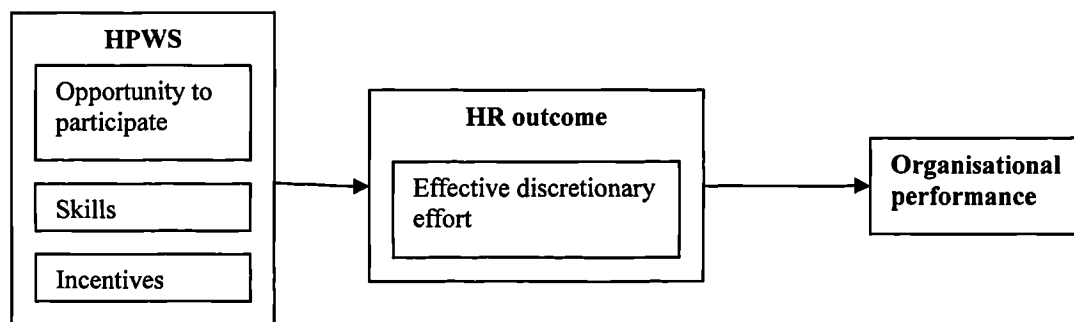
In a later version (Guest 1997), Guest attempted to describe the linkage of HRM practices and HRM outcomes in a more detailed way. Particular HR practices are linked to particular behavioural and HRM outcomes. For example, single status policies, job security, internal promotion and individualised reward systems influence effort and motivation and the HR outcome commitment. Strategic integration has been eliminated from the HR outcomes so that the other three outcomes remain. According to Guest (1997, p. 269), "only when all three HRM outcomes are achieved can we expect behaviour change and higher performance." However, it would seem more logical to conceptualise the behavioural outcomes as immediate effects of HRM policies which then promote the three desirable HRM outcomes which in turn affect performance outcomes. Guest's (op. cit.) description and elaboration leave in my reading of the model room for interpretation. For example, it is not entirely clear how strategic integration (Guest includes Porter's three generic strategy types into the model) are related to the HRM practices and HRM outcomes. Also, it is not obvious, under which conditions the financial outcomes specified (Return on Investment and profits) are expected to be higher. Furthermore, it is not easy to see why effort/ motivation, involvement, and organisational citizenship are classified as behaviour outcomes whereas absence, labour turnover and conflict are listed under performance outcomes, as they all relate to employee behaviours. Figure 2.2 illustrates Guest's (1997) model of HRM and performance.

Figure 2.2 Adaptation of Guest's model of HRM



One strand of research on HRM and performance emphasises the role of employee discretion for enhanced performance (e.g. Lawler 1986, Bailey 1993, Appelbaum & Berg 1999, Berg 1999, Appelbaum et al. 2000). Appelbaum et al.'s (2000) conceptualisation of HPWS – based on Bailey (1993) holds that the dimensions on which HPWS rest are the opportunity to participate, skills and incentives. Employment policies supporting these dimensions lead to the behavioural outcome of discretionary effort by employees which in turn enhances organisational performance. Figure 2.3 illustrates Appelbaum et al.'s (2000, p. 27) argument which the authors based on Bailey (1993).

Figure 2.3 Appelbaum et al.'s HPWS model

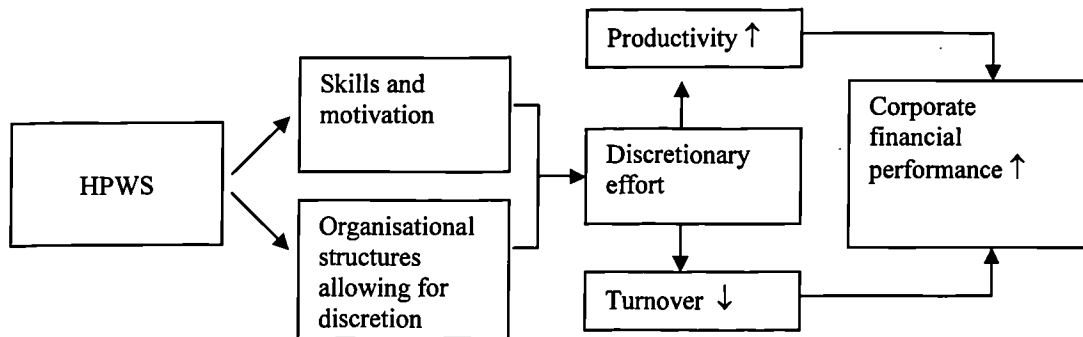


Under such work systems, workers work harder, since work is supposedly more interesting and enjoyable in the presence of adequate feedback and rewards, and they work smarter and more efficiently, since teams and participatory structures enable employees to contribute their views and to utilise their intimate workplace knowledge to improve efficiency. Also, group norms promoting high performance can be stimulated by group-based rewards reinforce the importance of both qualitative and quantitative high performance. Appelbaum et al. (2000, p. 167) specify how such discretionary effort is achieved through employee outcomes in more detail. The three components of an HPWS have a direct effect on trust and experienced intrinsic reward from work. These outcomes then increase organisational commitment and job satisfaction and lower stress. In addition, independent of motivational and social effects, structural changes such as cross-training and job rotation reduce the cost of absenteeism. Decentralised decision making and increased employee involvement can reduce the number of middle managers, improve communications and reduce grievances (Ichniowski et al. 1996).

Similar in outlook is Huselid's (1995) conceptualisation of HPWS and their link to performance. As Huselid's (1995) paper is one of the most if not the most frequently cited reference in the area, it requires mentioning here. Huselid argues, HPWS influence employee skills through "acquisition and development of a firm's human capital" (op. cit., p. 637). Naturally, reliable and valid selection procedures are crucial for the acquisition of suitable employees with the required skills, experience, traits and other attributes whereas training and development practices influence the future capacity of employees. The potential quality and resourcefulness of employees are, however, not sufficient for effective human resource utilisation. Thus, HPWS-style employment practices also need to motivate employees "to work both harder and smarter" (ibid.), e.g. through appraisals and their integration with compensation. Finally, based on Bailey (1993), he argues that the contribution of a workforce that is highly skilled as well as motivated must be limited if the job design does not allow them – knowing best about their own work – to utilise their potential to improve work processes. Higher productivity and lower turnover are said to result (as measurable intermediate outcomes) with an overall positive impact on corporate

financial performance (if these beneficial HPWS effects indeed exceed their true costs). Figure 2.4 illustrates Huselid's reasoning.

Figure 2.4 Huselid's HPWS effects model:



Explicitly or implicitly it is argued by proponents of HPWS that these employment systems have effects which workers experience positively. They enjoy, after all, more discretion in their work, have opportunities of participating in decision-making and have access to training. Mutual trust and commitment between employee and organisation develops, individually as well as collectively (e.g. through organisational citizenship behaviours (Patterson & West 2000)). There will be higher effort and more efficient work which in turn affect organisational performance positively. Advanced HRM practices claim to constitute mutually beneficial exchanges between organisations and employees (Levine 1995, Lau & May 1999).

2.2.2.3 Labour Process logic

The conventional HRM logic described above lacks an attention to and discussion of effects that could be perceived as negative and undesirable by those exposed to advanced HRM practices. The Labour Process Theory (LPT) provides an alternative view on such issues, and it is referred to here to provide a more complete picture of potential processes involved. The Labour Process perspective shares with the HRM approach the lack of an accepted definition and the presence of different emphases (Ramsay et al. 2000).

The undisputed cornerstone of LPT, however, is Braverman's (1974) *Labor and Monopoly Capitalism* which builds its analysis on Marx. Its subtitle points to the major concern of the book, i.e. 'the degradation of work in the twentieth century'. According to Braverman, the capitalist mode of production requires capital to cope with the challenge of the indeterminacy of human labour power. What can be bought is *labour power*, an undefined quality and quantity. To transform labour *power* into actual *labour* with predictable intensity and quality, the capitalist takes control of the labour process, i.e. the means by which raw materials are transformed by labour using tools and machinery that can be exchanged with profit on the market.

The division of labour into different operations assigned to different workers is the basis of controlling the labour process. Its economic benefits had long been recognised by writers such as Adam Smith and Charles Babbage who realised that additional savings on labour costs can be achieved if the lowest possible skill level is purchased for a particular fragmented operation in the process. F.W. Taylor's *Scientific Management* refined earlier ideas about the division of labour and put forward a new, more radical approach. Not only did he propose that work must be arranged dividing up the elements to the work process and assign them to different workers because of greater efficiency as others had before him, but he suggested that the worker must not retain any decision about the work and how it was to be carried out whereas before management's directives went only as far as setting work objectives which had left the employee with a certain degree of control (Braverman 1974).

Braverman (op. cit.) identifies the three elements on which Taylorism rests. Firstly, management appropriate the knowledge about the labour process previously possessed by employees. With detailed studies shortest possible times for carrying out particular tasks are identified and, using knowledge on shortcuts and informal methods, formal work rules and standards are established. The labour process is then independent of skills previously held by employees and rests only on managerially determined planning. Secondly, planning is separated from execution, or – put differently – manual and mental labour are divided with the former being allocated to

employees and the latter to management. Thirdly, with the eventual absence of knowledge among workers – then fully appropriated by management – management can control each step of the labour process and its execution. The deskilled employees' labour power can cheaply be bought on the labour market, and sophisticated and 'scientific' management methods ensure increasingly refined ways "to pump surplus value out of the worker" (Ramsay 1985, p. 53). An output-oriented piece-rate pay system tied to 'scientifically' derived work norms was advocated to control productivity and provide incentives to work at a higher intensity, but were in practice used as any other piece rate cut to levels permitted by the labour market but requiring employees to work at higher intensities anyway (Braverman 1974, p. 107).

HRM or HPWS-style employment practices including job enlargement, enrichment, rotation, work groups, teams, consultation, participation, group bonuses, profit sharing as well as the abandoning of assembly line techniques characterise "faddishness" (Braverman 1974, p. 35). They are not deployed due to a concern for "humanization of work" or to reduce the "social antagonism" (op. cit., p. 36) enshrined in managerial thinking, but to deal with negative manifestations of capitalist labour process control such as absenteeism, employee turnover, and lower productivity levels which interfere with the planned functioning of organisations.

"They [these practices, M.E.] represent a change of management rather than a genuine change in the position of the worker. They are characterized by a studied pretense of worker "participation", a gracious liberality in allowing the worker to adjust a machine, replace a light bulb, move from one fractional job to another, and to have the illusion of making decisions by choosing among fixed and limited alternatives designed by a management which deliberately leaves insignificant matters open to choice." (Braverman 1974, p. 39)

Even though Marx' original analysis drew heavily on manufacturing and even Braverman referred mainly to industrial work, he left no doubt that his analysis also applies to growing office and service occupations, dedicating two chapters to this area (Braverman 1974, Chapters 15 and 16), a theme later explored in depth by Ritzer (1993).

What could be termed as the precursors of, or contributors to, today's HRM paradigm, industrial psychology and human relations, have not, according to

Braverman (op. cit.) superseded Taylorism. While Taylorism ceased to exist as a particular school, its fundamental concepts have been integrated in mainstream work design, and human relations and industrial psychology practitioners are referred to as “the maintenance crew for the human machinery” (Braverman 1974, p. 87) in the tradition of Taylorism seeking to adapt labour to the needs of capital.

Ramsay (1985) identified two additional versions of the Labour Process perspective. According to the *neo-Fordist* variant proposed by Aglietta (1979) and Palloix (1976), Taylorism (focus of Braverman’s analysis) which found its clearest expression in deskilled assembly line work (‘Fordism’) has been superseded by ‘neo-Fordism’. According to these authors, a higher degree of automation than present in Fordist production systems relieved workers from the tight control and obedience characteristic of Fordism and introduced redesigned jobs with a higher degree of autonomy and self-regulation. However, genuine responsibility is not given to employees and remains firmly in management’s hands. The *voluntarist* variant (Ramsay 1985) acknowledges employees’ abilities to resist their subordination and questions the capacity of management to exert total control over the labour process (Bosquet 1977, Friedman 1977), e.g. workers learning to regulate their efforts to defend themselves against rate-cutting (Armstrong 1986).

There are contributions that attempt a synthesis of what can be regarded elements of HRM and Labour Process perspectives. Edwards et al. (1998) propose a ‘disciplined worker’ thesis or ‘re-regulation’ of work (based on Geary 1995), i.e. there is indeed tight monitoring and performance target setting which goes alongside more employee involvement in specific details of the work process. This, it is argued, is not necessarily rejected by employees since these prefer stable conditions and predictability to chaos, but there is also no room for increased commitment or trust. Similarly, Smith & Thompson (1998) dismiss the view of a shift from control to commitment as “naive” (p. 556), but note in their re-evaluation of the labour process debate that new production arrangements be cannot be regarded as forms of “super-Taylorism” (p. 558), since – albeit limited – employee self-control, self-monitoring, the move away from narrow specialisation and the devolvement of responsibilities do

mark a “break from those parts of Taylorism based on a clear separation of conception and execution” (p. 558). These authors acknowledge the deskilling arguments, but complement the discussion with the argument that this might be true with regard to individual work tasks, whilst collectively on a group level higher cognitive abilities and broader skills (e.g. communication or problem-solving) are required. Rather than speaking of straightforward commitment or intensification, it seems more appropriate to focus attention on a “multi-faceted re-organization of work” (Edwards & Wright 2000, p. 7).

With reference to the ‘black box’, traditional LPT would hold that this box is in fact very small, leaving little space for employees to manoeuvre and leaving the employees in the dark by appropriating job-related knowledge from them which is then used to control their restricted moves.

2.2.2.4 Resource-based view

Traditional economic research has largely ignored firm internal factors, focusing on external market factors instead (Hansen & Wernerfelt 1989, Barney 1991). This external focus is reflected in the contingency or fit models discussed above. However, a more recent theoretical approach in strategic management questions the fundamental assumptions of the traditional approach to (sustained) competitive advantage.¹

Whilst the traditional approach is based on the assumptions that firms within an industry are identical regarding the strategically relevant resources and that there is no enduring heterogeneity due to the high mobility of resources, the resource based view of the firm (RBV) challenges these assumptions (Barney 1991). For example, ‘first mover advantages’ (Lieberman & Montgomery 1984) or entry barriers are

¹ Competitive advantage is defined as implementation of a value-creating strategy not currently implemented by competitors; sustained competitive advantage is achieved if a firm can implement such a strategy and other firms are unable to duplicate it (Barney 1991, p. 102).

illustrations of resource heterogeneities i.e. unequal distributions of resources among market participants.

To have the potential to contribute to sustained competitive advantage, a resource must be valuable, rare, imperfectly imitable, and not be strategically substitutable (Barney 1991, 1995). *Valuable* means that a resource enables the organisation to implement strategies improving its efficiency and effectiveness by exploiting opportunities and neutralising threats in the environment. *Rareness* means that the resource must not be available to all. *Imperfect imitability* means that others cannot copy valuable and rare resources; reasons for this might be unique historical conditions, causal ambiguity (i.e. imperfect understanding of the nature of the link of the resource to the competitive advantage), or social complexity (i.e. including interpersonal relations between managers, with customers, suppliers etc.). *Substitutability*, similar to imitability, refers to the fact that competitors must not be able to substitute for a rare and valuable resource either.

It has been noted that traditional sources of competitive advantage (e.g. quality, economies of scale, technology) have become easier to imitate (Becker & Huselid 1998b) whilst the value of competitive advantage through people is increasingly recognised (Pfeffer 1994). Penrose (1959) distinguishes between the resources themselves and the services they can produce which depend on the way resources are utilised. Depending on the utilisation, the same resources can yield different services which constitute inputs in the production process (ibid.). What determines significantly the firm-internal services, it can be argued, is the way human resources are managed. HRM can create firm-specific assets which are difficult to transfer to other contexts, e.g. specific operational knowledge, firm-specific skills and competencies and routines (Koch & McGrath 1996) which are characterised by tacitness and complexity fulfilling the above criteria of rareness, imperfect imitability, and unsubstitutability. The embeddedness within the organisation's operational systems leads to a causally ambiguous and socially complex integration of the HR system which is difficult to imitate and which "enhances a firm's

capabilities to solve business problems that prevent effective strategy implementation.” (Becker & Huselid 1998b, p. 3).

How is the RBV thesis related to the behavioural perspective discussed above? According to Becker & Huselid (1998b), the behavioural perspective is not abandoned, but complemented by the resource-based view. Whilst the former focuses on how HRM creates firm capabilities, the latter emphasises the attributes which are required so that firm capabilities can generate competitive advantage.

The RBV is frequently referred to by researchers of the HRM-performance relationship as further theoretical argument as to why HRM can add value to the business (e.g. Huselid 1995, Youndt et al. 1996, Khatri 2000), but in most studies it is not explicitly tested. This is not surprising since the dominant research design is quantitative, whereas the nature of resource-based hypotheses calls for qualitative (ethnographic or fieldwork) methods (Rouse & Daellenbach 1999).

Similar to contingency approaches, the RBV emphasises the importance of an alignment of human resource attributes and strategy. However, unlike contingency theorists, proponents of the RBV discuss also the complex interrelation between the two, acknowledging that it is the nature of internal resources which also influence strategy (Wright et al. 1995). Thus, in a given point in time, an organisation’s choice of which strategies to pursue might be limited by its resource base (Barney 1991). Should this be the case, the organisation will adopt an alternative strategy that is more appropriate given its current resources (Wright et al. 1995).

Unlike the LPT, the RBV would posit that by creating a unique set of firm-internal resources including, for example, specific knowledge, behaviours, skills, or social systems, the organisation creates a ‘black box’ with highly unique content invisible to competitors, thereby promoting its competitive advantage.

2.2.2.5 Issues relating to the implementation of HRM

The discussion so far has focused on conceptual issues relating to the relationship between HRM and performance. There are two potential shortcomings, however. Firstly, there is a high degree of rationality assumed regarding the design and implementation of HRM, and a high degree of optimism regarding the application of advanced HRM practices prevails, especially in the HPWS-oriented literature. Notes of caution regarding the problems associated with implementing strategies and the resulting divergence of intended and emergent strategies (Mintzberg 1978) are largely ignored. A notable exception here is the Resource Based View (RBV) of the firm which highlights the idiosyncratic and complex processes involved in the creation of inimitable firm resources.

A second problem is a lack of discussion in the HRM literature of the actors in the design and implementation process. Labour Process Theory (LPT) identifies *management* as the driving force of employment practices with the intention of exerting a high degree of control over the way work is carried out, but the way these decisions are made by management is not explored further by the LPT either. In summary, *how* decisions about design and implementation of employment practices are made and *by whom* has been largely unexplored. The focus of this section is to address these obvious omissions.

Decisions relating to the use of organisational resources of which human resources are an undisputable and supposedly increasingly important element have historically been regarded as being within the realm of management (Mintzberg 1973). Within the wider HRM literature there is debate on whether HRM is to be left to specialists (as was the case in HRM's precursor 'personnel management') and to what degree it has to be owned and implemented by line management to be effective (Torrington & Hall 1998). The general consensus appears to be that line management has an increasingly important role to play in regard to the design and implementation of employment policies (Legge 1989, Storey 1995, Torrington & Hall 1998). While line managers, in fact the driving force behind much of HRM adoption (Storey 1995), are becoming 'more general' (Torrington & Hall 1998, p. 14), HR specialists

expand their expertise into specialised niche areas requiring particular knowledge (e.g. legal aspects relating to equal opportunities, pensions, payment). HR specialists thus act as resources as well as establishing links to external resources related to the management of human resources (ibid.). An additional strand of research investigates the role of HR specialists in *overall strategic decision making* on a corporate level as part of the top-management team, however with mixed results (Marginson et al. 1993, Kelly & Gennard 1996, 1998). Torrington & Hall (1996) found that *HR strategy* (in a range of areas involving, for example, HR planning, recruitment and selection, communication and reward) was in a majority of cases developed by HR and line managers in conjunction, whilst few HR managers were found to make HR decisions in these areas alone or to merely implement decisions.

The assumption of rationality concerns how such decisions are made. Over the last decades, scholars have increasingly questioned traditional notions of rationality in decision making. This critique of rationality and calculability of particular decisions has been voiced from different directions. Proponents of institutional theory hold that particular decisions are made to achieve consistency with institutionalised norms and rules (DiMaggio & Powell 1983). In regard to changes in HRM, for example, such rules and norms can arise in the form of 'institutionalisation pressures' by which relevant stakeholders pressurise management to adopt particular practices as conditions of doing business. Alternatively, approaches that seem to have been adopted successfully by competitors are imitated (i.e. 'mimicry'). Also, changes may be implemented as management values and beliefs change, hence can be based on 'ideology'. The 'rationality' of decisions influenced by processes according to institutional theory may well be economically irrational, yet politically rational (Godard 1999).

Another angle from which rational organisational decision making is critiqued is that of the political school. Unlike institutional theory, its proponents suggest that the competition for scarce resources *within* an organisation, conflicting views on strategic goals, and the desire for power result in emergent strategising influenced by these conflictual interactions and dominated by those with power (Allison 1971,

Pfeffer 1981). It is within such a perspective where research on the influence of HR directors (Marginson et al. 1993, Kelly & Gennard 1996, 1998), for example, can demonstrate its validity. Critics of the political perspective (see Eden & Ackermann 1998a) argue that there is an over-emphasis on conflict and an implicit assumption that consensus is not achievable. Rather, the focus should be on the coexistence of conflict and consensus and on the process of negotiation (ibid.). However, the political perspective may well take into account the coexistence of conflict and a continually re-negotiated degree of influence through changes in the balance of power. More importantly, even though the political and institutional perspectives can add to our understanding of how decisions are *influenced* (i.e. through the presence of powerful organisation-internal or -external actors), it can be argued that they have little to say with respect to how decisions are actually *made*. In other words, the two perspectives discussed enhance our understanding of the contextual factors that managerial decision makers take into account. However, they do *not* offer an explanation of *how* the actual decision makers in organisations choose one course of action over another.

Over the recent decades there has been a surge of interest and research in the area of cognition in the social sciences (Porac et al. 1996), which was warmly received in organisational disciplines seeking alternatives to the traditional economic model of organisational behaviour whose limits had become apparent (Sparrow 1994). Central to this approach is the premise that individuals represent stimuli cognitively and that it is this cognition which in turn influences behaviour (Dill 1958, 1962). Based on the centrality of managers for organisational decision making (Mintzberg 1973, Isenberg 1984, Ginsberg 1989, Whitley 1989), a 'managerial cognition' perspective has been developed that acknowledges the importance of managers' cognitive processes and mental models in organisations (Porac et al. 1989, 1996, Stubbart 1989, Spender & Eden 1998). This perspective investigates the nature of these mental models, their origins and the effect on behaviours and decisions by which these actors construct their environments (Jenkins 1998) and then 'make sense' of their constructions retrospectively (Weick 1995). This approach, referred to as 'constructionism', has "called into question a strictly realist view of the world in

which the environment imposes itself on passive perceivers” and is regarded as increasingly legitimate within organisational sciences (Porac et al. 1996, p. X). This view is based to a large extent on Berger & Luckman (1967) who emphasised the social construction of reality. According to Berger & Luckman (1967), social phenomena are social products which are themselves objective and thus in turn affect human actions so that individuals accept this reality as their own. These processes are referred to as “externalisation”, “objectivation” and “internalisation” (op. cit., p. 79). This position thus implies that in order to understand the world, researchers need to focus on the actors who construct their reality and analyse the way reality is constructed. Whereas Berger & Luckman (1967) appeared to place more emphasis on the *construction* of the world, the contributions from the more cognitively oriented sciences focus on the mental processes involved in this construction process.

The concept of ‘bounded rationality’ was discussed by Simon (1957) and March & Simon (1958), highlighting the limitations of managers’ cognitive capacities in an environment characterised by uncertainty and information overload. Practical yet often too simplistic sets of rules of thumb are used to act within such environments. Cognitive biases for managerial decision making comprise the presence of prior hypotheses and the focus on limited targets, an exposure to limited alternatives, an insensitivity to outcome probabilities, and an illusion of manageability (Das & Teng 1999). Stubbart (1989, p. 339), however, warns that the argument of irrationality, bias and simplification can be taken too far and calls for a model of “both intelligent choices and occasional errors.” Many concepts from cognitive science have been introduced to managerial cognition to explain mental simplification and representation processes, including constructs, symbols, beliefs, frames of reference, cognitive and causal maps, to name but a few (see Schneider 1993, Sparrow 1994, Porac et al. 1996).

There is a group of researchers who explicitly refer to Kelly’s (1955) ‘personal construct theory’ which holds that individuals create ‘constructs’ (e.g., patterns of beliefs, ideas) to make sense of their world. This process involves prediction and testing of constructs. Kelly proposed the ‘repertory grid’ technique to assess

individuals' constructs which are of a bipolar nature revealed by grouping three items defining a construct in a way that two are similar with a third constituting the opposite pole.

Acts of interpretation and the related managerial decisions are often analysed by using an approach called 'cognitive mapping' to identify and graphically depict managerial cognitions (Swan 1995, p. 1257). The term 'cognitive mapping' was first used by the psychologist E.C. Tolman (1948, p. 194) in a paper on an experiment with spatial orientation in rats and humans in which he sought to present an alternative view to the prevailing stimulus-response logic dominant during his time. The relationship between concepts which can be cognitively represented ('mapped') may be one of similarity, cause-effect, category and contiguity (ibid.). When the cause-effect relationship between represented concepts is of particular interest to the research, cognitive mapping is often referred to as 'causal mapping' (Jenkins 1998, Weick & Bougon 1986), although this terminology is not universally shared (Bood 1998). In this thesis, the terms are regarded as synonymous.

The 'managerial cognition' perspective is not without problems. Sparrow (1994, p. 160) comments that "the subject is littered with borrowed and often ill-defined concepts from cognitive science". The 'cognitive mapping' variant has been described as providing a metaphor for managerial cognition only (Stubbart & Ramaprasad 1990) and as representing a process of articulation rather than actual cognition (Eden 1992). Nevertheless, it might be argued that articulations and metaphors already constitute progress in domains difficult to define and measure. And despite problems, there is considerable evidence from empirical studies demonstrating the usefulness and validity of a 'managerial cognition' perspective (e.g. Bougon et al. 1977, Porac et al. 1989, Grønhaug & Falkenberg 1989, Fahey & Narayanan 1989, Dutton et al. 1989, Reger & Huff 1993, Phillips 1994).

For example, Porac et al. (1989) focused on mental models of managers within small Scottish knitwear manufacturing firms and found a set of self-reinforcing beliefs and cognitive taxonomies. Despite the virtual absence of statistical market data,

managers drew sharp competitive boundaries, adopted a high-quality oriented production technique not, however, allowing for quick responses to changes in fashion, and as the classically designed knitwear products were retailed through high-end agents and stores which served as the only informal way of gathering market data, these beliefs were reinforced. The managers shared many beliefs and perceptions regarding customers (i.e. top 5% wage earners whose demand is independent by economic trends), competitors (i.e. Scottish competitors only as the best products come from Scotland, not Italy which produces fashionable items of lower quality), suppliers (i.e. Scottish spinners preferred due to quality), and retailers. These findings appear consistent with Spender's (1989) notion of 'industry recipes' or Phillips' (1994) 'industry mindsets' identified in empirical investigations in the fine arts museums and Californian wineries. Such industry mindsets encompass shared understandings of the nature of competition and can extend to issues such as the purpose of work and the nature of work relationships.

There is a scarcity of research using a 'managerial cognition' perspective on issues within the domain of HRM. Results from the few atypical studies are briefly presented below. Herz (1996) investigated the effects of 'framing' on decision making using student and managerial samples presented with a personnel selection problem who were asked to act as HR managers. Both a negative version (focusing on expected losses) and a positive version (focusing on expected gains) of the same decision problem with two options each were presented to subsamples of the participants. Both static and dynamic settings (adding information) were used. Significant framing effects were found, however with differences between the managerial and student samples. Incongruence of respondents' own choice with peer choice significantly decreased the framing effects, but not the proportions among managers who appeared to have imported previously held frames of reference characterised by negative attitudes towards one of the alternatives. Barlow (1989) investigated latent functions in management appraisals as revealed through managers' perceptions of the effectiveness of management development and training programmes. In contrast to official declarations of the objective of appraisal systems, career development potential was seen as being evaluated through a process of social

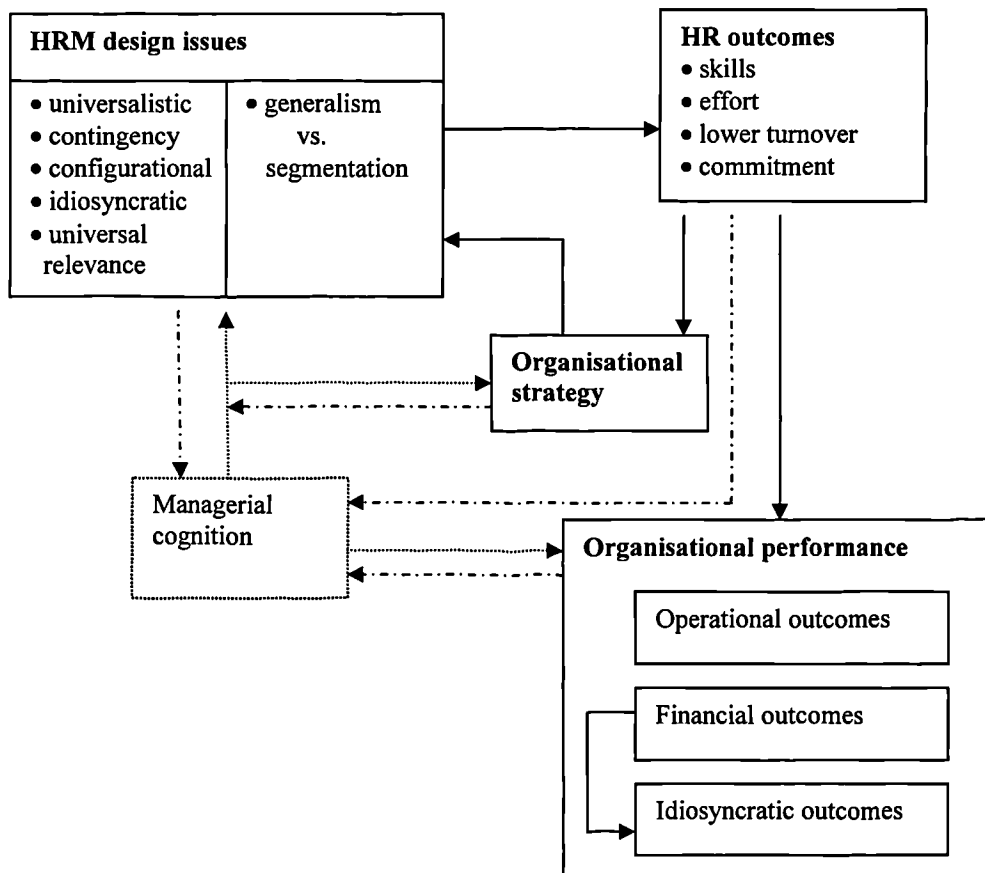
selection with senior managers as most relevant actors rather than through an independent assessment of managerially relevant characteristics. Rather than fulfilling motivation or control functions, the formal system was described as a useful opportunity to discuss with superiors about developmental activities and potential.

The relationship between managerial cognition and organisational performance is an important area for further research (Porac et al. 1996). As managers make decisions affecting the use of organisational resources including human resources (Mintzberg 1973, Eden & Ackermann 1998a), there is a strong implication for the relevance of a 'managerial cognition' approach within the area of HRM and organisational performance. Top, line and HR managers evaluate and interpret the potential relevance and benefits of HRM policies and make decisions about the planning of manpower and the employment policies under which the workforce is employed. They can be expected to do this based on assumptions about HRM policies' potential effects on employees and performance. Political and institutional factors could imply an official adoption of practices, for example, which then, however, may not be fully translated into implementation of HRM due to inconsistencies of external or internal political pressures with personally held mental maps by managers. Such hypothetical considerations are not characteristic of the HRM-performance debate as yet. As on the one hand the connection between managerial cognition and performance remains an important issue in the cognitively oriented literature and the HRM-performance debate is ongoing within the academic community of HRM scholars, a managerial cognition perspective to research on HRM and performance may serve to advance debates in both the HRM and the managerial cognition literature.

2.3 An integrative framework for the analysis of the HRM-performance relationship

The discussion up to this point has focused conceptual discussions of HRM and performance, as well as alternative theoretical perspectives of the connection between these concepts. The key elements of the HRM-performance relationship are summarised in Figure 2.5.

Figure 2.5 Integrative model of HRM, strategy, and organisational outcomes



HRM systems in organisations can follow different designs whereby two issues are relevant. Firstly, HRM design issues concern the *type* of design, based on assumptions on the effectiveness of universalistic, contingency, idiosyncratic, or universal relevance perspectives discussed above. Secondly, design issues include the question to which *part of the workforce* particular practices are to be applied, referred to here as generalism (HRM design applied to all employees) versus segmentation (HRM design applied to particular employee groups). The design of

HR systems can be influenced by organisational strategy (as contingency theorists would propose).

Contingency theory also argues that HRM can affect performance through alignment with strategy so that organisations with such an alignment are expected to perform better than those without. The behavioural perspective in particular elucidates further the way in which HRM affects performance: it elicits behaviours (either universally desirable or those needed for specific strategies) from employees which in turn affect performance. The optimistic views of the HRM perspective emphasising the role of employees to promote organisational performance is critiqued by the Labour Process perspective focusing more on management's motivation to exert tight control over how work is carried out. Proponents of the Resource Based View of the firm (RBV) add that HRM can affect the resource base of the firm needed to achieve competitive advantage and that also strategy can be influenced by the present resource base. Outcomes on the level of the employee ascribed to HRM are referred to as *HR outcomes*. No distinction is made in this review between behavioural and HR outcomes in contrast to Guest's (1997) suggestion. Guest's (op. cit.) 'HR outcomes' resemble generic HRM policy goals on the employee level, whereas Guest's (ibid.) 'behavioural outcomes' refer to the real behavioural outcomes. To avoid the potential confusion that might arise from such a distinction, in this thesis, HR outcomes are referred to as both behavioural and resource capabilities effects.

Organisational outcomes resulting from these behaviours, capabilities, and strategic alignment activities can be subdivided into financial outcomes (e.g. Return on Assets), operational outcomes (e.g. productivity, quality), and idiosyncratic outcomes which can be located at different organisational levels, e.g. as solving immediate operational business problems preventing effective strategy implementation (Becker & Gerhart 1996), quick response to changes in customer demands (Appelbaum et al. 2000), or a focus on market share instead of growth (Becker & Gerhart 1996). Whereas for some (e.g. Guest & Hoque 1994, Deery & Iverson 1999), operational outcomes such as productivity are the final performance criterion for HRM

effectiveness, others (e.g. Huselid 1995) see HRM effects on financial performance indicators mediated by productivity.

As discussed in Chapter 2.2.2.5, this rationalistic way of conceptualising is questionable and requires the integration of the actors involved in the design and implementation of HRM and attention to their cognitive processes. HRM is interpreted by managers in regard to its value for the organisational (or managerial) logic, and these evaluations of to what degree HRM 'makes sense' are likely to influence the approach taken to HRM. If design and implementation are separated between different managerial groups, potential differences in their mental maps will almost certainly contribute to a discrepancy between intended and realised HRM policies. A managerial cognition perspective also implies that not only HRM and its effects on employee outcomes (i.e. HR outcomes) are evaluated and interpreted, but also performance dimensions which may be viewed in idiosyncratic ways by managerial actors. Managerial cognition itself can be expected to be influenced by all factors it influences as actions are retrospectively evaluated in the process of sensemaking (Weick 1995).

Chapter two introduced the background of HRM, provided a definition of HRM and performance, an overview of various theoretical positions regarding the HRM-performance relationship, and discussed issues relating to the implementation of HRM. Chapter three reviews empirical studies investigating the HRM-performance relationship in order to investigate the achievements of research to date and develop hypotheses on the basis of the identified gaps remaining.

3. Empirical literature on the HRM-performance relationship

This chapter discusses the evidence on the HRM-performance relationship in further depth by reviewing a range of empirical studies. These studies are primarily based on the strategic perspective and the HRM logic discussed in Chapter 2. These constitute the dominant theoretical positions in current research on HRM and performance. To achieve a comprehensive structure for the presentation of these findings, Chapter 3 is structured around the logic underlying these two positions, i.e. the link between HRM and strategy and the different chain links from HRM to performance via HR outcomes. Quantitative and qualitative studies are discussed separately. The outcomes of this review are presented in the form of a series of ‘observations’ which record the key findings. These form the basis of the development of the present thesis’ research hypotheses at the end of this chapter.

From 55 studies discussed, 26 (47.3%) were conducted in the USA, followed by the UK with 12 (21.8%). Japan was referred to in two studies (next to the USA), two were conducted in France, and various other countries were covered in single studies (Russia, Singapore, Netherlands and Germany, Finland, Spain, Korea, Australia and New Zealand). Thus, there is a clear dominant representation of Anglo-American countries in the empirical literature (41 studies in total including US, UK, New Zealand, Australia, and Canada). Western European and Asian countries are represented by seven studies each.

Observation 1: There is a predominance of Anglo-American, particularly US studies.

A broad range of sectors is covered with most studies referring to various sectors (24). Twenty-one studies were conducted in the manufacturing sectors of the economy, and 9 in services (including catering, professional services and banks). One study was conducted in professional sports.

Observation 2: Many sectors are covered with emphasis on manufacturing.

The dominant mode of research was quantitative, adopted by 49 of 55 studies. Whereas the qualitative research relied not surprisingly on interviews, the standard instrument for the quantitative studies was the questionnaire survey. Thirty-one of the 49 (63.3%) relied exclusively on questionnaires, 12 (24.5%) used interviews only, and the remaining combined both methods or used data from other sources.

Observation 3: The dominant mode of research is quantitative.

Observation 4: The dominant research tool is the questionnaire.

Thirty of the 49 quantitative studies reported a response rate. One (Kelley 1996) refers to a percentage of those participating in a previous study and is therefore excluded. The range was very broad from 6.5% to over 80%. The average response rate was 43.3% with a standard deviation of 18.9%. In the cases with multiple respondents or different time periods, both measures were used to calculate an average. Based on an overview of 175 studies published in several well-established business and psychology journals, Baruch (1999) found an average response rate of 55.6% and S.D. of 19.7% with a declining response tendency between 1975 and 1995 and a predominance of North-American studies. In the mid-1990s (when most of the HRM studies were conducted), the average response rate found by Baruch (op. cit.) was 48.4% (S.D. 20.1%).

Observation 5: Response rates generally correspond to the norm.

As can be seen from Appendix A 1, most of the studies (39) were purely cross-sectional in nature. Only some studies attempted to introduce a panel or longitudinal element in the research. This over-reliance on cross-sectional data bears the potential weakness that (despite statistical effects of 'independent' HR variables on 'dependent' organisational outcomes in regression analyses) the direction of causality cannot be determined. It is, however, crucial to analyse whether HRM practices actually influence outcomes or whether they are influenced by organisational performance (that is, well performing organisations afford good

HRM) as acknowledged by cross-sectional researchers such as Huselid (1995) and Delery & Doty (1996).

Observation 6: Cross-sectional research unable to assess the question of causality dominates the research.

In 28 of the 55 studies, data were obtained by exclusively relying on (general or HR) managers' or directors' reports. Not only were they in many instances asked to report HR data, but also data on business strategy or ratings of relative performance to the industry or competitors. For example, Huselid (1995) asked the HR managers what proportion of sales is derived from certain generic strategies – a very doubtful estimate, according to Purcell's (1999) critique. Eaton (1994) observed that managers and union representatives often disagreed about the actual application of a certain HR policy in an establishment. Eleven studies used multiple respondents and six studies relied exclusively on employees' accounts.

Observation 7: The majority of studies relies on managerial reports only, but a sizeable number also includes employees or employee representatives.

As noted earlier, despite some consensus about certain practices, the empirical studies to be reviewed vary significantly in regard to the number and type of HR practices included. Even if the same practices are included, they might be interpreted in a different way by the researchers. For example, Arthur (1994) classified incentive bonuses as part of the traditional control system whereas MacDuffie (1995) saw the same practice as part of the innovative, flexible HRM strategy. Also the measurement of HR practices varies. For example, Huselid (1995) measured the percentage of employees to whom a practice is applied, and Ramsay et al. (2000) constructed their HRM variable scores as additive scores of the items (i.e. score one for the presence of a sub-practice). Based on similar considerations as mine above, Bamberger & Meshoulam (2000) concluded: "The fact that different researchers measure strategic HR practices in different ways makes it difficult to cumulate findings." (p.182). Most common was a simple measurement of presence or absence

of certain HR practices and Likert-scaled items measuring the extent or intensity of and HR practice (see Appendix A 3 for an overview). Due to these different points of departure, another measurement problem arises for HR configurations or systems derived from there (ibid.). Furthermore, the research design varies enormously with different HRM-“effects” tested on a variety of objective or subjective performance indicators.

Not surprisingly, there is a lack of consensus in the literature as to what existing studies actually measure. For example, Youndt et al. (1996) interprets both of Arthur’s (1992, 1994) contributions as evidence for the contingency approach whereas Purcell (1999) sees support for the universalistic approach in both papers. According to my own assessment, Arthur (1992) tested what Venkatraman (1989) calls ‘fit as matching’ (p.430), by measuring a “theoretically defined match between two related variables” (ibid.) or what Delery & Doty (1996) term ‘contingency perspective’ (p. 803). In contrast, Arthur (1994) tested the universalistic approach (similar to Ichniowski et al. 1997 or Appelbaum et al. 2000) by essentially comparing less sophisticated and sophisticated HRM. The contingency model would be adequately tested if firms’ performance adopting business strategy A, but without a corresponding HR strategy A’ would be compared with those adopting a matched business and HR strategy AA’. The configurational model (Delery & Doty 1996) would be tested if the degree of deviation from an ideal internally and externally aligned HR system would be tested in its effect on performance.

Observation 8: There is disagreement as to how to measure HRM sophistication

Observation 9: There is disagreement as to how to measure different HR design approaches.

A variety of measures was used to assess organisational outcomes (see Appendix A 2 for an overview of outcome measures used). The most popular outcome measures assessed productivity, product quality, and financial performance. Of the 40 studies using organisational outcome variables, 24 used available performance data all of which are associated with certain weaknesses (Warner & Hennell 1998) and 18 were

based on managers' subjective assessment of ratings relative to competitors or the industry which can be problematic as well. A combination of both subjective and objective measures was used in two studies.

Whereas objective performance data must be treated with caution as discussed in Chapter 2.2.1.2, subjective performance measurement is problematic as well, particularly in the case of subjective comparative performance accounts whereby the respondent is asked to compare his/her own establishment with that of competitors. Purcell (1999) reports findings from the third Workplace Industrial Relations Survey (WIRS3) in which the majority of firms rated themselves better than their competitors. This finding is confirmed using data from the Workplace Employee Relations Survey 1998 (WERS 98) showing that such comparative performance assessment results in an upward bias, i.e. most organisations claim to perform better than the average as Table 3.1 illustrates.

Table 3.1 WERS 98 performance results

	Financial performance	Labour productivity	Product/service quality
Better than average	50.1%	42.8%	65.9%
Average	30.1%	35.6%	22.8%
Worse than average	5.8%	4.4%	2.2%
No comparison	9.2%	11.5%	6.0%
No relevant data	4.7%	5.7%	3.0%
	100%	100%	100%
Categories better/ a lot better and below/ a lot below average merged into better and worse than average			

Observation 10: The use of standard performance outcomes dominates the research. Idiosyncratic business goals are in general not addressed.

3.1 Quantitative Studies

Table 3.2 shows the frequencies with which the different HRM design (see Figure 2.1) issues were addressed. Several studies tested more than one approach. Universal relevance refers to Hoque's (1999a) design category introduced earlier.

Segmentation refers to the fact that there is a specified employee group (or groups) to whom HRM is applied. Contingency as understood here does not only refer to the classic business-strategy contingency, but includes other explicitly addressed contingencies of HRM and the business context such as production technology or capital intensity.

Table 3.2: HRM design issues

HRM design	Frequency
Universalistic approach	35
Contingency approach	18
Configurational approach	1
Universal relevance	1
Segmentation issues	3
Other	8

Table 3.3 counts the frequency of another structural element of the empirical research, namely the area or chain link(s) of the HRM-performance relationship addressed. With reference to Figure 2.5, there are several theoretical areas that can be addressed: The business strategy-HRM relationship, the simple HRM-organisational performance link, HRM-HR outcomes, the mediation of the HRM-organisation relation by HR outcomes, the HR outcomes-performance, and human resource capabilities linkages with other elements.

Observation 11: Intermediate and implied HRM effects are not investigated by quantitative studies.

Table 3.3: Chain links in the HRM-performance relationship

Chain link	ID Numbers*	Frequency
Business strategy-HRM	2,4,14,33,49	4
HRM-organisational performance	1,3,4,5,6,10,12,13,14,16,17,21,22,23,24,25,27,28,29,30,31,32,33,34,36,37,38,40,41,42,44,45,46,48,52,54,55	37
HRM-HR outcomes	1,3,6,7,16,17,18,21,23,40,43,48	12
HR outcomes-organisational performance	10,31,35,44,45,47	6
HRM-HR outcomes-organisational performance	16,23,31,40,48	5
Human resource capabilities links	53	1
Other	1, 11,19,45,46,51	6

* ID Numbers as in Appendix A 1, i.e. No 1: Appelbaum et al. (2000)

As can be seen from Table 3.3, the HRM-organisational performance link is the one most frequently assessed by 37 studies, whereas the intermediate linkages of HR outcomes occupying a considerable part of the 'black box' are only analysed in 5 studies. See Appendix A 2 for an overview of outcome measures used in the literature.

Observation 12: Most studies address the link between HRM and performance directly.

Observation 13: Only a minority of studies focuses on the full assumed linkage of HRM, HR outcomes and organisational performance.

3.1.1 The HRM and business strategy link

Arthur (1992) used Porter's strategy types introduced earlier and conceptualised corresponding HR strategies of cost reduction (associated with cost leadership) and commitment maximising (associated with differentiation). Four business strategy clusters were interpreted as one low cost and three differentiator producers. HRM data resulted in six clusters which were then grouped into four categories, i.e. pure type commitment maximisers and cost reducers and other cost reducers and commitment maximisers. Sixty-nine percent of the steel mills used an HR system matching their business strategies. Eighty-nine percent of the US low-cost mills were found to use a cost-reducing HR system, and 60% of the differentiators used a commitment system as predicted. A Chi²-test of independence showed that the two variables were not independent. However the significance level of $p < .025$ was only marginal. Logistic regression revealed that with several controls only business strategy had a significant relationship with the HR system.

Bae & Lawler (2000) tested whether organisations pursuing differentiation strategies are more likely to have high-involvement HRM strategies. In addition, they investigated whether organisations emphasising higher speed in firm activities for internal and external customers have such advanced HRM strategies. There was only limited support for the hypothesis that a differentiation strategy is positively related

to adopting HRM. The beta-value was only marginally significant ($p < .10$) in a two-stage least squares regression, but not in an ordinary least squares (OLS) model. The speed variable was significant at $p < .05$ only in the OLS regression. A third factor explaining HRM adoption was highly significant in all models at $p < .01$, i.e. management values characterised by a belief in the importance of human resources as a source of competitive advantage.

Dunlop & Weil (1996) studied the adoption of modern team-based modular assembly in contrast to the traditional Taylorist bundle-system of apparel production. According to the authors, suppliers increasingly have to compete not only in terms of cost, but also replenishment speed and flexibility. Mass merchants and national chains have become more sophisticated in their demands so that suppliers should have a theoretical incentive to adopt modular production associated with lower throughput times. Different regression models suggested that a 10% shipment increase to those retailers makes it between 12 and 14% more likely to adopt modules. Replenishment pressures raised adoption probability more than other factors, pointing to an adaptation of the HR and production system to requirements of the external environment. Quick replenishment also required investments in information systems such as uniform bar codes and electronic data interchanges to provide real time sales information. Thus, “[m]odular adoption must be understood as part of sequential decisions necessary to adapt to changing retailing requirements.” (Dunlop & Weil 1996, p. 347). Thus, external conditions were found to favour the adoption of particular strategies to enhance speed and flexibility which in turn required particular HR/production systems.

Khatri (2000) tested contingency propositions by using Miles & Snow’s (1984) framework. By performing an ANOVA, it was found that only very few practices actually differed between the types as contingency theory would predict. Significant exceptions were less use of performance-related compensation by defenders, but no significant difference of the use of performance pay among the other types was found. Prospectors and analysers used significantly more consultative performance appraisals than reactors. Analysers placed significantly higher emphasis on the

effectiveness of training than defenders. Overall, this hypothesis received only very weak support.

Sanz-Valle et al. (1999) factor analysed responses to twelve competitive variables. Four factors emerged of which three could be interpreted by Schuler & Jackson's (1987) model. Cluster analysis resulted in four clusters, two innovation, one quality and one cost cluster. Acquisition practices, training & development, compensation issues, performance appraisals and other HR practices were analysed. The results were partially consistent with the Schuler & Jackson (1987) approach. For example, cost-reducers offered less benefits, paid less well than innovators and quality enhancers, and they used appraisals less. However, recruitment practices did not vary between the strategies. Here, job category (managerial or non-managerial) explained HRM variance. Job category, not strategy also explained different qualitative appraisal criteria, i.e. managers' appraisals were found to be longer-term and more individually oriented than employees' appraisals characterised as more short-term and group oriented (even though individual appraisals dominate in both groups). Some findings were also contrary to Schuler & Jackson's (1987) predictions, e.g. quality enhancers used a more hierarchical pay system than innovators, they also trained less in process techniques than innovators, innovators used a higher degree of job descriptions and cost reducers less, and cost control was relatively important for innovators.

Observation 14: Business strategy classifications are moderately successful in empirically differentiating firms in terms of HR strategy.

Observation 15: The immediate business context not captured by business strategy theories can help explain HRM adoption.

3.1.2 The HRM and organisational performance link

As established above, 33 studies address the HRM-organisational performance linkage. They do this with different approaches as illustrated in Table 3.4.

Table 3.4: The HRM-performance and relationship and HRM design

HRM design		ID Numbers	Frequency
Universalistic approach		1,3,4,5,6,10,12,13,14,16,17,22,23,24,25,27,28,30,31,32,33,34,36,37,38,40,41,42,44,45,46,48,52,54, 55	35
Contingency approach	Total	4,5,12,13,14,16,21,23,29,32,33,34,38,41,42,44, 52,55	18
	Internal fit	5,13,21,24	4
	External fit	4,14,16,21,24,29,33,38,44,52,55	11
	Other	4,32,34,41,42	4
Configurational approach		14	1
Universal relevance		21	1
Segmentation issues		12,16,49	3

3.1.2.1 The HRM-organisational performance link and the universalistic approach

The universalistic approach is the most dominant mode when assessing the link between HRM and performance (see Table 3.4).

Appelbaum et al. (2000) conducted both panel and cross-sectional studies. An 18-months panel data set was constructed to evaluate the impact of four clusters (a traditional system with little HRM, an incentive system with emphasis on rewards, a participation system, and a full HPWS with advanced HRM in all areas) on productivity (defined as steel production line uptime). It was found that the HPWS cluster had a performance advantage of 14% relative to the traditional system, the participatory system of 15% and the incentive system of 8% relative to the traditional system (all significant at $p < .001$). Cross-sectional studies were carried out in the steel, apparel and medical electronics industries.

Using the above cluster solution, in the steel industry HPWS outperformed traditional systems by 18%, the participatory systems by 14% (both $p < .01$), and the incentive systems performed 13% better than traditional systems ($p < .05$). When treating each HPWS variable individually, only quality incentives were significantly related to uptime. In apparel, the traditional bundle system (designed according to scientific management principles) and the modern, team-based module system were compared in firms producing the same product with both techniques. Whereas no significant module effect on quality was found, throughput time for garments was significantly lower in modules (on average by 94.1%), illustrating much higher

productivity. In medical electronics and imaging, a broad range of performance outcomes were addressed, including value added, operating profit, overall productivity, and others. Even though there was no entirely consistent profile of HPWS and performance outcomes, the authors concluded that HPWS organisations “rank highly on eight diverse indicators of financial performance and production efficiency and quality.” (Appelbaum et al., p. 163).

Arthur (1994) examined the effects of control- and commitment-maximising HRM on quality (measured as scrap rate i.e. tons of raw steel needed to produce one ton of finished product) and labour efficiency (average labour hours needed to produce a ton of product). Using regression analysis, Arthur (1994) found that commitment systems were both associated with significantly lower scrap rates and lower labour hours (both $p < .05$).

Bae & Lawler (2000) tested whether a high-involvement HRM strategy has statistical effects on organisational performance measured both subjectively (managers' responses) and objectively (return on invested capital ROIC). The measure of subjective performance included ratings of public image and goodwill, growth rate of sales, product/service quality, long-run profitability, financial strength, and employee productivity. Both ordinary least squares (OLS) and two-stage least squares regression analyses resulted in highly significant beta-values for the HRM variable ($p < .01$), thereby providing support for the universalistic perspective. Using the objective financial data available for a subset of 68 of the 138 organisations, OLS regressions were performed for both contemporaneous (1996) and subsequent (1997) performance data. In both cases, the HRM variable was significant at conventional levels ($p < .01$ for 1996 data and $p < .05$ for 1997 data). These results strongly support universalistic predictions.

Becker & Huselid (1998b) measured the HPWS impact on financial performance. They designed two HRM scales, an HPWS scale measuring the degree of HPWS sophistication and an “implementation alignment” scale as a measure of organisational policies and practices complementing an HPWS. Cluster analysis

resulted in four clusters, a personnel cluster with both scales below average, an alignment cluster with high implementation alignment and low HPWS, a compensation cluster with above average HPWS (particularly in compensation variables) and a high performance cluster with both scales above average. The HR index alone had a significant effect on shareholder value ($p < .001$), but the coefficient became smaller when implementation alignment was included which had an independent effect ($p < .01$). When using the cluster solution, relative to the personnel cluster, the high performance cluster had a 65% higher market value, the compensation cluster 39%, and the alignment cluster 28% (differences significant at conventional levels).

Berg et al. (1996) examined performance effects of modular production in two companies, company 1 with one module and bundle plant, company 2 with mixed systems in the same plants. In company 1, the modular plant was characterised by strongly increased volume from 1989 to 1993, 26% increase in value added per worker, decreased throughput time from 8 to 5 days (in comparison to 9-11 days in the bundle plant), reduced work-in-progress inventories by 62% and better quality (in comparison with bundle plant). In company 2, one plant changed to 2/3 module adoption resulting in value added increase of 200% from 1989 to 1993. Both module and bundle elements had very high quality. The same item was cheaper to produce in module production by lower overhead costs, less supervision and quality inspection and direct labour costs. According to management, module adoption helped to stay in business and to meet increasingly sophisticated demands of customers. According to workers' opinions, module production was associated by higher quality than bundle production.

D'Arcimoles (1997), using standardised French company personnel records, constructed both cross-sectional and longitudinal analyses of the impact of HR variables on firms' economic performance (i.e. productivity and Return On Capital Employed ROCE). Only individual effects were studied. Training was found to be related to economic performance both immediately and with a lagged effect. Wages

and performance did not show any connection. The rate of social expenditures had a significant immediate, but no lagged effect on performance.

Delaney & Huselid (1996) investigated HPWS effects on organisational performance (e.g. quality, customer satisfaction) and market performance (i.e. profitability, market share). Entering HPWS variables individually resulted in many significant coefficients for organisational performance (training, incentives, low hierarchy, grievance procedures, decentralisation). However, when entering the variables simultaneously, training and incentive variables remained highly significant. Obviously, individual entering overstated the effects. The same effect was found for market performance where staffing selectivity, training, incentive compensation, internal promotion and low hierarchy were significant individually, but in simultaneous inclusion, staffing selectivity, incentive compensation and training were significant.

Delery & Doty (1996) restricted their analysis to the job of loan officer in banks, arguing that this is a core position most critical to organisational performance. Effects on two financial measures i.e. ROA and ROE were studied. Individual entering of HR variables resulted in significant coefficients for results-based appraisals, profit sharing for ROE and ROA and employment security for ROA. Simultaneous entering replicated the above results with significant coefficients. In addition to controls HR variables explained further 9% of the variance for ROE and 13% for ROA.

Dunlop & Weil (1996) investigated two performance effects of modular apparel production: lead times and operating profits percentage of sales. Modular assembly was associated with 0.6-days decrease in lead time (not significant). However, modular adoption was significantly related to higher operating profits ($p < .05$).

Fey et al. (2000), in their analysis of foreign-owned Russian firms, explicitly investigated HRM effects separately for managers and non-managers. For both employee groups, firm performance was significantly predicted by salary levels. For

managers only merit promotion was a significant predictor of firm performance, whereas job security was significant for non-managers only.

Guest & Hoque (1994) concentrated on non-unionised establishments only. These were categorised according to two dimensions: presence of an HR strategy and presence of HRM policies and practices. Four types were derived: the 'good' with HRM and a strategy, the efficiency-driven 'ugly' with a strategy, but no HRM, the 'lucky' without strategy, but HRM presence, and the 'bad' with neither. The good, according to multivariate analysis, coped much better with the recession than the lucky. Surprisingly, the bad claimed to have achieved the highest percentage of performance targets attained, followed by the good; the ugly performed worst. Quality benchmarked against world and UK standards was reported highest by the good, followed by the ugly with the bad performing worst. For productivity, the good claimed higher results than the lucky in comparison to the UK standard. Against world standards, the ugly reported best results before the good (not significant). Despite some variation, the good thus constituted the group with most consistent high performance.

Huang (2000) tested the universalistic approach in the reverse way and hypothesised that HR practices of well performing firms differ from lower performers. Taiwanese companies rated themselves on a number of performance dimensions (ranging from staff turnover to sales and profit growth). The results were then clustered into outstanding, average, and poor performers. Differences in HRM were assessed. The groups differed significantly in terms of HR planning. High performance made high involvement of HR in decisions and HR devolvement to the line more likely. Higher performers also had significantly more explicit and formal planning procedures. Poor performers were more short-term oriented in planning, high performers long-term oriented. Outstanding firms were significantly more likely to offer broad career paths providing all-round experience and to have clear job definitions. Fixed promotion criteria and multiple promotion ladders were not significant. High performers were more likely to have appraisal systems integrated with other HRM aspects, to use long-term and more group-based appraisal criteria. Well performing firms were

significantly more likely to pay higher wages, to emphasise internal equity, to offer employment security and more financial incentives than poor performers. As expected, outstanding performers also offered more training and development based on long-term considerations, involved line management in the planning of training activities and claimed training to be a valued function. Team- or individual focus for development was not significant.

Huselid (1995) factor analysed his large-scale survey responses and identified two factors, i.e. 'employee skills and organisational structures' (factor 1) with practices enhancing skills, abilities, and role performance and 'employee motivation' (factor 2) with practices targeted at evaluating and reinforcing desired employee behaviours. In regressions on productivity (defined as net sales per employee), when entered individually, both factor scales were positive and significant ($p < .01$), but when entered simultaneously, only the motivation factor remained significant. Tobin's q , a measure of corporate market valuation performance, was predicted significantly by both factors in each equation (factor 1 with $p < .10$, factor 2 with $p < .01$). For gross rate of return on assets (GRATE), an accounting measure of corporate financial performance, only factor 1 was positive and significant ($p < .01$).

Huselid et al. (1997) distinguished between technical and strategic HRM activities with the former being characterised by e.g. high-quality recruitment, selection, performance measurement, whereas the latter are characterised by HR practices like teamwork, empowerment, HR planning, management development, succession planning, employee-management communication, or work-family studies. Using similar corporate financial measures as Huselid (1995), the associations of technical and strategic HRM with performance were assessed. In most regression models, strategic HRM effectiveness was positively associated with the performance measures, but technical HRM effectiveness was not. This is explained by Huselid et al. (1997) by the high institutionalisation of such HR activities so that they are not sufficient to add value.

Huselid & Becker (1996) constructed a panel data set to follow up on Huselid's (1995) original findings which were based on 1991 survey data. A 218-respondents panel replication in 1991 and 1993 could be achieved so that the original 1991 cross-sectional results, 1991 and 1993 panel-subsample results and a 1993 cross-sectional result were available. Unlike the 1991 original sample showing both factors related to Tobin's q and factor 1 to GRATE, the 1991 subsample showed no such pattern. By a joint F-test the hypothesis that the two dimensions were equal could not be rejected so that a total HR sophistication measure was used instead. In the cross-sectional results 1991 and 1993, all coefficients were significant except for GRATE 1991. For the panel results, a fixed-effects model resulted in smaller and insignificant coefficients whereas a random-effects model displayed significant coefficients for both Tobin's q ($p < .01$) and GRATE ($p < .05$). When using HR levels 1991 to predict financial performance in 1991, 1992, and 1993, HRM-coefficients for Tobin's q rose from .1479 in 1991 to .1899 in 1992 and .1694 in 1993 (all $p < .05$). For GRATE, the coefficients were .113 in 1991 (not significant), .0266 in 1992 ($p < .10$) and .0197 ($p < .10$) in 1993. Thus, even though this was not interpreted as a direct test of a lagged effect of HRM on performance, HRM benefits were found to be higher in subsequent than contemporaneous years.

Ichniowski et al. (1997), based on extensive interviews and visits to steel production lines, analysed the productivity and quality effects (defined as line uptime) of innovative HRM. Four HRM system clusters emerged with different HRM sophistication ranging from no innovative practices, close supervision, narrow job definitions, and strict work rules in system 4 to high HRM in all areas in system 1. Interestingly, all system 1 adopters were new sites, no older lines changed towards system 1. Different regression specifications for HR effects on uptime displayed a clear hierarchical pattern. Lines with system 1 had the highest productivity, followed by systems 2, 3 and 4 respectively. An OLS regression with various controls resulted in significant coefficients ($p < .01$) for all systems of .067 for system 1, .032 for system 2 and .014 for system 3. Also the differences between the systems were significant ($p < .01$). To exclude the possibility that high-quality lines use the most innovative practices (thus non-random error distribution), a line-specific quality-

variable was introduced. In this fixed-effects model relying only on changers, system 2 gained 3.5% uptime, lines with system 3 gained 2.5% relative to the traditional system. A specific product line comparable across lines was then chosen for cross-sectional results with very similar coefficients. Thus, system 1 had a 6.7% advantage over system 4 in line uptime (conservative OLS estimation), system 2 had a 3.5% advantage and system 3 a 2.5% advantage (fixed-effects models). The authors calculated that a 1% increase in line uptime has a theoretical effect of \$27,600 per month per line net of differences in production costs and direct HRM policy costs. A change from system 4 to 2 maintained over 10 years would result in theoretical operating benefits of over \$10 million. Investigations into quality showed similar results: system 1 was associated with the highest quality, and also systems 2 and 3 had benefits over system 4. Individual HRM coefficients were significant without controls for HRM systems, but lost significance once HRM systems were entered, pointing towards biased results using individual HRM variables.

Ichniowsky & Shaw (1999) used data from the Ichniowski et al. (1997) study and complemented these with data from Japanese steel lines to compare US lines with HRM and Japanese lines (which were very similar in productivity). The innovative US HR system was found to have many similarities with the Japanese system, but also several differences, e.g. orientation and indoctrination were more prevalent in Japanese lines whereas selective recruitment characterised the innovative US system. In general, Japanese steel finishing lines were by 5% more productive than US lines ($p < .001$). However, it was found that the innovative US system performed as well as the Japanese system. Quality was ca. 7% higher for Japanese lines. In comparison to the traditional US system, the Japanese system was 14.6% higher in quality, but the US innovative system only 10.7%. Thus, whilst the innovative US system could outperform the less sophisticated HRM systems (systems 2 and 3 were 5.3% better than the traditional system) and was equal to the Japanese system in regard to productivity, it could not match Japanese quality standards (all results $p < .001$).

Kalleberg & Moody (1994) cluster analysed HRM responses based on a rather limited HRM practices list excluding, for example, involvement and quality circles.

Three clusters were found: a HPWS cluster, a cluster with high scores on benefits and decentralisation, and a cluster with high training. Using individual scales, correlational analysis revealed that internal labour markets correlated significantly with product development and innovation, attracting and retaining employees and financial performance. Training correlated significantly with all performance dimensions except customer satisfaction, and compensation correlated positively with all performance measures. Decentralisation only correlated significantly with attraction and retention of employees. Using the clusters instead of the individual scales, the results were supported further. The high-HRM cluster (with the exception of customer satisfaction) scored highest on all performance dimensions, and the cluster with few training and promotion opportunities, but with benefits and decentralisation scored lowest (except from customer satisfaction where it scores highest).

Katz et al. (1985) tested Quality of Work Life (QWL)-involvement effects on direct labour efficiency and quality. QWL involvement was defined as extent of workers included in quality circles, informal meetings of plant managers, workers, and union officials and other forms of communication between labour and management. QWL correlated with labour efficiency ($r=.17$, $p<.10$) and quality ($r=.26$, $p<.05$). However, in regression analyses, QWL had no effect on labour efficiency and a minimal ($b=-.0001$, $p<.05$) effect on quality in the unanticipated direction.

Kelley (1996) argues that traditional bureaucracies have become the dominant organisational form, but that due to the increasing market instability and the need for more flexible technologies and work systems the specialisation and standardisation associated with bureaucracies are under pressure to change. The question arises whether the old structures are becoming totally obsolete or whether bureaucracies manage to integrate advantages of participation (i.e. re-evaluation of old routines, establishment of informal shortcuts etc.) with the advantages of bureaucracies. Manufacturing establishments' responses to HRM items were factor-analysed resulting in three factors i.e. a participative factor (with high loadings on autonomous work groups, formalisation & standardisation of work methods, joint-labour

management committees, technical classes, and stock ownership plans), a union/seniority based bureaucracy factor with high loadings on union representation and seniority-based rules for promotions and assignments and a traditional craft apprenticeship factor. It was found that rather larger plants with a degree of market power were associated with participatory structures. Small batch production was negatively related to participation, age positively. Productivity regressions (defined as total hours required to produce one item) were calculated. In a model with few controls and the three factors, all were significantly related to productivity, the traditional craft factor negatively and the other two positively with the participation factor having the largest coefficients. However, when a range of sophisticated controls were added, the other two factors changed only slightly, but the participation factor became much smaller and insignificant. This indicated the absence of a strong universalistic effect of participation in the full sample.

Khatri (2000) used Miles & Snow's (1984) typology and categorised the participants in a Singaporean sample into defenders, prospectors and analysers. According to universalistic predictions, HRM should have an effect on performance for each type. For defenders, the HRM effect was significant for profitability ($p < .05$), but only marginally significant for non-financial performance and sales growth ($p < .10$). For prospectors, only profitability was significantly predicted ($p < .01$), for analysers profitability was significant ($p < .05$), and sales growth reached marginal significance ($p < .10$). Whilst there was evidence for the universalistic effect on profitability, other outcomes were not consistently significantly predicted so that Khatri (2000) saw only modest support for the universalistic approach.

Koch & McGrath (1996) investigated effects of three HRM policies (planning, recruitment and development) on labour productivity. Bias-corrected regressions (necessary since firms with higher productivity were more likely to respond) revealed that investments in HR planning ($p < .05$) and in recruitment and selection ($p < .01$) were significantly related to productivity. Employee development was insignificant. Support was thus found for two of three policies.

Lähtenmäki et al. (1998) investigated the HRM-performance relationship and attempted an evaluation of the impact of economic recession on this relationship. Finland experienced a strong recession prior to and during the data collection in 1993 which was overcome in 1995. The HRM variable was comprised of a wide range of measures including long- or short term orientation for HR planning and development, the degree of coverage of employees by practices such as career planning and HRM integration with strategy. The different single measures correlated very weakly. In an ANOVA, the strategic role of HR was the only significant coefficient for change in market share, and the status of the person in charge of HRM was significantly associated with past performance. However, the HRM variable (comprised of long-term HR development, management involvement in HRM, integration of HRM and strategy, high HRM investments and the two aggregated variables) was associated with forecasted business results. Thus, whilst company results in general did not seem to be affected by strategic HRM, anticipated future results did.

This lack of support for the universalistic perspective is explained by the authors largely by the impact of the economic situation at that time. Deep recession resulted in general poor performance and poor HRM. The financial problems led to rationalisation pressures which in turn affected HRM strongly whereby those with most strategic views of HRM focused on middle-management and supervision positions for restructuring whereas traditional companies made the strongest cuts for shop-floor and clerical workers. Lähtenmäki et al. (1998) identified the hidden assumptions in most HRM-performance research of a stable economic environment and non-monopolistic position and challenged these with their results.

Observation 16: External market conditions influence the HRM-performance relationship and the state of HRM itself.

Lau & May (1999) chose a somewhat different way to assess HRM advantages. Two groups of companies were compared. Group 1 consisted of companies regarded as the best companies to work for in the US as identified by Levering & Moskowitz

(1994). The results were derived from a several-stages selection process starting with commonly accessible material leading to a pre-selection of 400 companies. Investigation of HRM material of those resulted in a total of 147 which were selected for interviews on all organisational levels. A final 100 companies were selected. These companies were characterised by high pay, benefits, opportunities, job security, pride of employees in the company, camaraderie, openness and friendliness. This is thus a mixture of both QWL or HRM sophistication and employee responses. I decided to present the results in this category since exact dimensions of employee responses are not made explicit and the results are more easily interpreted as overall sophistication of people management practices. Group 2 consisted of Standard & Poor 100 companies characterised by stable and superior growth and profitability. Due to a lack of available financial data for the rest, 58 companies were selected into group 1, 88 for the second group (12 already were represented in group 1). T-tests were used to compare the groups. Based on five-year trends, significant differences between the groups were revealed. The HRM companies had significantly higher sales and asset growth (p-values .0000 and .0002). Referring to the five-year trends of profitability, results were mixed: group 1 had significantly higher ROA (p-value .008), but the difference for ROE was not significant. Thus HRM companies utilised their resources better, but no difference for equity owners was obvious.

Lee & Miller (1999), based on a Korean sample, examined how an organisation's commitment to its employees' well-being (OCE) is related to firm performance. Two OCE measures were constructed: OCE 1 measured how much the organisation cared for well-being, fair pay, satisfaction and profits sharing. OCE 2 assessed a relative rating to competitors on the use of investment in training and compensation. In regression analyses, irrespective of strategy, OCE measures were found to relate positively to financial performance (ROA), but only half of the coefficients were significant at $p < .05$. Lee & Miller (1999, p.585) conclude that in the Korean context, "OCE alone may not yield a strong advantage."

Liouville & Bayad (1998) divided HRM variables into strategic HRM (e.g. empowerment, participation, training) and technical HRM variables (e.g. personnel

planning, compensation, performance appraisal). It is interesting to note that whereas for Huselid et al. (1997) HR planning is a strategic activity, for Liouville & Bayad (1998) it is a technical variable. An ANOVA supported the hypothesis that HRM had a significant positive impact on economic performance ($p < .05$). Classification of HRM systems resulted in five classes, the two on the extremes with high (cluster 1) and low (cluster 5) HRM use and the remaining ones with an emphasis on different practices or combinations (strategic for clusters 2 and 3, technical for 4 and 5). Firms in cluster 1 (with both technical and strategic HRM) had higher economic results than the others. The strategic firms in clusters 2 and 3 performed better than those in clusters 4 and 5. In this study, more sophisticated HRM was associated with better economic performance.

MacDuffie (1995) used an international data set of automotive plants to examine the effects of indices for HRM (performance pay, training, selective recruiting, low status barriers), work systems (job rotation, use of teams, quality responsibility for workers, suggestions per employee), minimisation of buffers and a combined index (in both additive and multiplicative form of the other three) and whether their impact is greatest when integrated in the 'organisational logic' of flexible production. When entering the indices individually for regressions on productivity, all were significant with the expected signs. Adjusted R^2 in each case rose significantly over the base case with controls only. HRM was marginally significant at $p < .10$, work systems at $p < .05$. When entered simultaneously, HRM and buffers stayed significant, but not so work systems. For quality regressions, a similar picture emerged. Individually entered, HRM ($p < .01$) and work systems ($p < .05$) were significant, not so buffers. When entered simultaneously, only HRM stayed marginally significant at $p < .10$. Restricting the analysis thus far on the findings on the universalistic effect only, strong evidence was found for HRM effects on productivity and quality and for work systems on productivity.

McNabb & Whitfield (1997) understood innovative HRM as consisting of two components: flexible assignments and team production. Whereas both comprise elements of team production, the difference is that flexible assignments alone use

teams for production, but leave the conceptualisation and planning mainly in managers' hands and the team production is understood as involving employees substantively in the work process by decentralisation. Four possible combinations exist: use of both practices, use of neither practice and use of one practice only. Based on a large-scale UK data set, the effects of innovative practices and unions were assessed. Flexibility alone was found to have a marginally positive effect on financial performance ($p < .10$), team working a negative effect ($p < .10$). The results were thus mixed.

Michie & Sheehan-Quinn (2001) adopted Ichniowski et al.'s (1997) logic and grouped HRM practices into four HRM systems. System 4 does not feature any innovative practices and is characterised by tight work rules and narrow job responsibilities, system 3 uses innovative practices in at least two areas, system 2 includes the innovative practices of system 3, but also includes two other innovative practices, and system 1 includes at least one component from each HRM policy areas (i.e. recruitment and selection, incentive pay and appraisal, training, teamwork, employment security, flexible job assignment, and communication). The effects of these HRM systems on subjectively measured financial performance and innovation was tested using regression analyses. Three regression models were tested: one with all control variables, measures of employment flexibility, and industrial relations, a second one with all these variables apart from employment flexibility measures, and a final one adding a number of interaction terms (not discussed here) to the second model.

Using subjectively measured financial performance as dependent variable, the HRM system 1 coefficients were highly significant ($p < .01$) and positive in all models and the HRM system 2 coefficients were significant at $p < .05$ throughout, but with smaller beta-values. HRM system 3 did not reach conventional significance levels. Similarly, using subjectively measured innovation (product and process innovation) as dependent variable, the HRM system 1 coefficients were highly significant in all models ($p < .01$), the system 2 estimates were smaller and less significant ($p < .05$), and the HRM system 3 coefficients were marginally significant at $p < .10$ with smaller

magnitudes. Functional flexibility (i.e. management's promotion of greater employee flexibility or reduced job demarcation) was tested separately and highly significant in all models ($p < .01$). Whereas external flexibility (temporary, fixed-term, casual, seasonal, and part-time contracts) was positively associated with financial performance ($p < .01$), external flexibility through non-permanent employment contracts was found to be negatively correlated to innovation ($p < .05$), implying a trade-off between short-term gains from utilising labour market flexibility and long-term effects such as innovation can be obstructed. The authors therefore found strong evidence to support the universalistic perspective and contributed that HRM practices can have opposite effects on different performance constructs.

Patterson et al. (1998) drew on longitudinal data to evaluate HRM impact on company performance (i.e. labour productivity and profitability as profits per employee). Data for performance in the three years prior to data collection were gathered for adequate controls. Financial performance was measured one year after the HRM measurement. HRM data were factor analysed resulting in two factors termed acquisition and development of employee skills (including selection, training and appraisal items) and job design (including skill flexibility, job autonomy, job variety and formal teams). The HRM factors significantly accounted for 19% of variance of change in profitability (controlling for prior performance) and 18% of variance for change in productivity. Acquisition and skill development was significant at $p < .05$ and job design with $p < .10$ for change in profits, the acquisition factor with $p < .01$ and job design with $p < .05$ for change in productivity. Quality improvement teams, communication, harmonisation, comparative pay and incentive pay were insignificant. Thus, the data support the universalistic assertions.

Patterson et al. (2000), in a longitudinal study of similar design as Patterson et al. (1998), investigated the effect of integrated manufacturing, empowerment and performance. Empowerment is understood as combination of delegated responsibility to lower levels (job enrichment) and development of employees at that level to utilise the gained responsibility (skill enhancement), a theme recurring frequently in the HPWS literature. An empowerment score was created of the two scales with job

enrichment covering a variety of issues ranging from cycle times and the extent of delegation to responsibility for specific issues. Skill enhancement covered selection, training and performance appraisal issues. Integrated manufacturing (IM) comprises advanced manufacturing technology (AMT), just-in-time inventory control (JIT) and TQM.

Of the three component indices for IM, only AMT correlated with performance ($r=.33$, $p<.01$ for subsequent productivity). The partial correlation (AMT with subsequent productivity whilst controlling for prior productivity) was also positive and significant ($r=.27$, $p<.05$), supporting the view that AMT, but not IM in general predicts a productivity change. Both job enrichment and skill enhancement correlated significantly and positively with both prior ($r=-.35$, $p<.01$) and subsequent ($r=.57$, $p<.01$) productivity, thereby accounting for 12% respectively 33% of the variance. When controlling for prior productivity in partial correlations, empowerment accounted for 23% of the variance in change in productivity ($r=.48$, $p<.01$). Similar, but less strong effects were found for change in profit ($r=.45$, $p<.01$) by Patterson et al. (2000).

Regression analyses controlled for additional background factors. Empowerment then accounted for additional 14% of the variance in productivity ($p<.01$) and 18% for profitability ($p<.01$). Individually, the component scales were highly significant as well. Conversely, AMT only accounted for 6% of the variance in change in productivity ($p<.01$), but not profitability. Therefore, with the exception of AMT for change in productivity, it was rather empowerment that explained substantial variance of subsequent performance. Additional analyses revealed that empowerment did not account for variance in profits after its effect on productivity had been removed. Thus, the empowerment effect on profitability was entirely due to its effect on productivity (Patterson et al. 2000).

Ramsay et al. (2000) used a large scale UK data set to examine HRM effects on performance and intermediate effects (which are discussed in Chapter 3.1.3 and 3.1.5). Factor analysis of HRM data resulted in nine factors with two readily

interpretable ones. These were labelled systems work practices 1 (with high loadings on employee/union representation, consultation committees, diversity management, family-friendly policies, sophisticated selection), and systems work practices 2 (with grievance procedures, formal teams, harmonisation, appraisals, training and downward communication). A third score was constructed with the remaining weaker factor resembling more closely the HPWP approach with profit-related pay, share ownership, TQM, problem-solving groups, team autonomy, job control, IIP, upward communication, job security, internal promotion and induction processes. A consistent effect was found with the HPWP scores which were significantly related to labour productivity ($p < .001$), financial performance ($p < .01$), quality ($p < .001$) and higher increase in labour productivity in the last five years ($p < .001$). The other two systems practices hardly showed any relations to organisational performance. Thus, there is strong evidence for the universalistic approach from this study.

Wang et al. (1999) tested universalistic predictions using a sample of Chinese firms. Training, pay competitiveness, incentive pay and long-term HR orientation explained significantly incremental variance in firm performance. Competitiveness in pay had higher explanatory power than other HR practices, followed by training, incentive pay, and long-term HR orientation. No support was found for teamwork, internal promotion and job security. There is therefore some support for the universalistic approach. The authors argue that institutional factors unique to China might require the adoption of these practices, not strategic ones so that their effect is different from the West.

Wood & de Menezes (1998) used latent class analysis to identify homogeneous groups of workplaces with the latent variable being the level of high commitment management. A four-class model fit the data best. The first class was characterised by low HCM, the fourth by high HCM. Regression analyses were used to test whether the first three classes differed from the high HCM class. The results “show that there was no tendency for the high HCM workplaces to perform better than all others on any performance criteria.” (Wood & de Menezes 1998, p. 504). However, the high HCM group had significantly higher levels of employment growth and

overall financial performance than the two medium categories, but not the low HCM group which is difficult to explain. No effect of HCM on productivity was found. Thus, support for universalistic assertions is weak.

Youndt et al. (1996) studied the interconnections of HRM, manufacturing strategy (discussed later) and firm performance among a sample of US manufacturing plants. Performance data were factor analysed and resulted in three performance factors i.e. machine efficiency (equipment utilisation, scrap minimisation) customer alignment (product quality, on-time delivery) and employee productivity. Two aggregate indices for HRM were calculated: an administrative one with e.g. selection for manual skills, policies training, hourly pay, individual incentives, and a human-capital enhancing index with e.g. selective staffing, selection for technical and problem-solving skills, developmental, behavioural appraisal, group incentives and skill-based pay. Four-step regressions for each outcome factor were calculated. When entering HRM systems simultaneously over controls and manufacturing strategies, additional variance was explained for productivity ($\Delta R^2 = .14$, $p < .01$) and for customer alignment ($\Delta R^2 = .07$, $p < .01$). The coefficients for human-capital enhancing HRM were significant for all outcomes (for productivity $p < .01$, for customer alignment and equipment efficiency $p < .10$). Thus, the universalistic approach is well supported.

Observation 17: In a variety of industries and different national context, the universalistic approach is generally well supported.

3.1.2.2 The HRM-organisational performance link and the contingency approach

Contingency issues are addressed by 16 studies. Firstly, evidence for the internal fit is discussed followed by external fit propositions before finally turning to other types of contingencies.

3.1.2.2.1 Internal fit

Becker & Huselid (1998b) who found evidence for the universalistic approach (see Chapter 3.1.1), tested whether internal fit is associated with better performance. They calculated a model including only the upper 75th percentile of both scales (HR index and implementation alignment). Each element of the two HRM scales was scored 1.0 when above the 75th percentile in the sample. Thus, firms with each element at the mean would have a value of zero, and firms with half of the 24 practices over the 75th percentile a value of 12. Therefore, increased values in these measures reflect, according to the authors, system-wide improvement, hence internal fit.

When examining the impact of one S.D. deviation, the ‘high system’ index (with the 75th percentile data) had a 29% larger impact on financial performance than the simple HRM index, and the same calculation for the alignment measure indicated an 8% lower impact. This was interpreted as evidence that internal fit within HRM is more important than in the organizational logic supporting the HRM system. Further analyses revealed that about two-thirds of the gains from HRM system improvements were attributable to the increasing internal fit of the HR system, whereas gains from the internal fit of the organizational logic seemed negligible. In addition, Becker & Huselid (1998b, p.13) found that the benefits for improved HR systems through internal fit are “entirely attributable to internal fit within the compensation policies.” Hence, the authors recommended to strengthen the pay-performance link before adopting other, more complex HRM changes to design a comprehensive HPWS. The two dimensions correlated significantly at $r = .54$, $p < .001$. This was interpreted as additional evidence for internal fit (Becker & Huselid 1998b).

Delaney & Huselid (1996) constructed a variable to indicate the number of HRM practices on which a firm was above the median. Controlling for all other HRM variables, this variable was consistently positive, but insignificant. In addition, interaction effects among HRM measures were tested as an additional measure. With one exception, these were insignificant. Thus, in this study no evidence for internal fit was found.

Hoque (1999a) measured internal fit by asking respondents whether they adopted HRM as a strategically integrated package. Those claiming to do so consistently outperformed others not making such claims on all performance measures.

Huselid (1995) measured internal fit both as matching and as moderation (with reference to Venkatraman 1989). Internal fit as matching was assessed as degree of consistency between the HRM policies throughout its operations. For GRATE, the results were (unanticipated) negative and significant, and non-significant for Tobin's q . Internal fit as moderation was assessed in two ways: firstly, by assessing the subjective interpretation of respondents of the consistency of HR policies across business divisions and creating interaction effects with HR factor scales and secondly by the interaction between the two HR factors. Whereas the first measure was consistently insignificant, the second measure was positive and significant for Tobin's and GRATE. Taken together, the results provided only very weak support for the notion of internal fit. This might partly be due to inappropriate measures: the single units of multi-divisional companies face different external environments that might make internal consistency across divisions even counter-productive. This problem illustrates the difficulties when trying to identify appropriate units of analysis. (Note when consulting Huselid (1995) that different definitions of internal fit as matching and moderation are confusingly used on pages 649 and 663. I refer to page 663 where results are reported.)

Observation 18: Support for internal fit notions are moderate.

3.1.2.2.2 External fit

Bae & Lawler (2000) tested the effects of a differentiation strategy on organisational performance, measured both subjectively (managers' responses) and objectively (return on invested capital ROIC). A differentiation strategy was found to be highly significantly and positively related to subjectively measured company performance using both ordinary least squares (OLS) and two-stage least squares regressions (all $p < .01$). The coefficient was also highly significant ($p < .01$) using an OLS regression

for objective performance data as dependent variable, however, the differentiation variable lost significance when using subsequent performance data (one year lag). All variables were included simultaneously in the regression models. The HRM variable was significant also ($p < .05$ using subjective performance measures, $p < .01$ using contemporaneous objective financial data and $p < .05$ using subsequent objective financial data). Overall, Bae & Lawler (op. cit) found good support for the prediction that a differentiation strategy is related to organisational performance. An explicit test of the contingency perspective by including interaction terms of HRM and differentiation strategies did not improve the fit of the regression model, although the interaction term was positive for various specifications of the performance function. No support was therefore found for the contingency perspective.

Delery & Doty (1996) tested external fit initially by calculating seven separate regressions for both ROA and ROE with two steps: step 1 included controls, Miles & Snow's (1984) strategy measures, and the HRM measure; step 2 included interaction terms between the combined HRM measure and the strategy measures. No interaction term was significant, indicating that in this model specification, strategy did not moderate the HRM-performance relationship. Another test, performed with all different single HRM measures in the first step and the interaction terms in the second step, resulted in a marginally significant increase of R^2 for ROE and ROA. After removing insignificant interaction terms, interaction terms between the strategy measure and innovation, career opportunities, results-oriented appraisal and participation explained ca. 7% additional variance for ROA and ROE. Defenders performed better with less reliance on results-based appraisals, prospectors with more use of this practice. Defenders also performed better with the use of more participation, but the opposite was found for prospectors. ROA and ROE were higher for prospectors when the offered internal career opportunities, but not for defenders. This was interpreted by Delery & Doty (1996) as some evidence for contingency relationships, pointing to a market and acquisition based employment system for prospectors and an internal system for defenders with the exception of internal promotion which was different from predictions.

Fey et al. (2000), instead of testing a fit hypothesis directly, proposed that “it may be more appropriate to analyse the degree to which companies actively pursue the alignment of strategy and HRM practices.” (p.6). Such a pursuit of HRM-strategy fit was not found to have any impact on firm performance.

According to Hoque (1999a), one would expect a significantly positive effect of sophisticated HRM only in quality enhancer companies. HRM was indeed higher for organisational performance measures of service quality and financial performance for quality enhancers ($p < .01$) as predicted, not, however, for labor productivity. This, however, could be expected as quality enhancers should focus on quality aspects rather than higher labour efficiency.

Huselid (1995), with reference to Venkatraman (1989), tested external fit as moderation and as matching. External fit as moderation was tested in two ways. Huselid asked the respondents what proportion of sales of the firm was derived from a differentiation or focus strategy. This proportion was interacted with the two HR scales scores. Secondly, respondents indicated whether they tried to implement seven strategic HR activities to all employees. An index constructed from their responses was interacted with each factor score. With the exception of one measure for GRATE, external fit as moderation was not supported. No support was found for external fit as matching either. Huselid (1995, p. 663) concluded: “[O]n the whole the results did not support the contention that either type of fit has any incremental value over the main effects ...”

Whereas the traditional Schuler & Jackson (1987) argument states that the degree of sophistication of HRM is related to business strategy (highly sophisticated for differentiators, rather primitive for cost-reducers), Jayaram et al. (1999) defined a different type of fit or contingency. Rather than relating the degree of HRM sophistication to strategy, they asked respondents which purposes HRM practices that are used are meant to support. Thus, they used a distinction of HRM practices

according to qualitative criteria, not quantitative ones. It was proposed that manufacturing strategies can aim at cost-, flexibility-, quality, or time-orientated.

Factor analyses of HRM items resulted in a five factor solution with a cost-orientated, quality-orientated, time-orientated, flexibility-orientated competitive advantage and generic HRM factor. The first four factors were comprised each of the HRM scales top management commitment, communication of goals, formal training, and cross-functional teams to support the respective manufacturing strategy (i.e. use of teams to support a quality strategy). The generic factor contained broad jobs, cross-training, employee autonomy, employee impact, labour-management relations and open organisations. Each HRM factor correlated significantly with its respective performance dimension. Thus, the HRM cost factor was related to cost performance ($r=.480$, $p<.001$), the quality HRM factor correlated with quality ($r=.234$, $p<.10$), the HRM flexibility factor with flexibility ($r=.362$, $p<.001$), but also less strongly and significantly with cost performance ($r=.276$, $p<.05$). Similarly the time HRM factor correlated with time ($r=.324$, $p<.05$), but also with flexibility ($r=.285$, $p<.05$). The generic HRM factor only correlated with time performance significantly. Regression analysis supported the correlational results. The HRM cost factor predicted cost performance best ($p<.001$), but also the flexibility factor predicted cost ($p<.069$). Quality performance was only predicted by the HRM quality factor ($p<.10$). Flexibility performance was predicted by HRM-flexibility ($p<.05$), but also by the HRM time factor ($p<.05$). Time performance was predicted by the HRM time factor ($p<.05$) and the generic HRM factor. Thus, a certain HRM factor was always associated significantly with its corresponding performance dimension. In the cases where another factor was associated with the performance dimension as well, the HRM factor meant to support it showed a higher coefficient. Thus, in an unconventional way, the study supports external contingency predictions by providing empirical evidence that qualitative differences in HRM deployment predict specific intended outcomes. Generic HRM only impacted on one dimension.

Khatri (2000) assessed contingency propositions by using Miles & Snow's (1984) framework. In order to test whether performance is moderated by strategy, strategy

and HRM interaction terms were calculated. Many significant interaction terms were found so that Khatri (2000, p. 351) concluded “that business strategy had a highly significant moderating influence on the link between HR practices and performance.” In addition, specific contingency hypotheses were tested assessing whether the adoption of specific practices for the different types is beneficial for performance. For *defenders* it was found that only non-financial performance was significantly affected by the adoption of training. A predicted negative effect for HR planning was found again only for non-financial performance measures. For *prospectors*, as predicted, performance-oriented compensation was significant and positive for both profitability and non-financial performance. Employee participation was only significant for sales growth. No supporting evidence was found for the hypothesised positive effect of training and selection tests on performance. For *analysers*, HR planning was significantly associated with sales growth only, participation with non-financial performance only, and training with profitability only. Overall, strong evidence was found for the proposition that HRM is contingent upon strategy which was partially supported by the type-specific analyses, albeit not for every outcome measure.

Lee & Miller (1999), against the conventional contingency logic, argued that organisational commitment to employees (OCE) may help to gain the commitment and support from the workforce required for the effective execution of positioning strategies. Thus, they examined interaction effects of positioning strategies (cost leadership, marketing differentiation, innovative differentiation) with the two OCE measures. All interaction terms were significant at $p < .01$. The rise in R^2 was significant when the interaction terms were added. The authors concluded that “OCE has the greatest potential to enhance financial performance in organisations with a strong positioning strategy.” (Lee & Miller 1999, p. 586).

Michie & Sheehan-Quinn (2001) tested contingency arguments by interacting functional flexibility, external flexibility (i.e. numerical flexibility through non-permanent employment contracts) and labour turnover with three different HRM systems. System 1 was the most sophisticated in regard to the HRM practices used,

whereas system 3 only used innovative practices only in two out of seven specified areas of HRM. Dependent variables were subjectively measured financial performance and innovation. Using performance as dependent variable, functional flexibility interacted highly significantly with HRM system 1 ($p < .01$) and significantly with HRM system 2 ($p < .05$) whereby the magnitude of the effect was greater for the first interaction. Unionisation interacted positively and significantly with HRM system 1, but negatively with system 3 ($p < .10$). Using innovation as dependent variable, HRM system 1 again interacted positively with functional flexibility ($p < .01$). So did HRM systems 2 and 3 ($p < .01$), but with smaller magnitudes. Whereas for system 1 also the interaction with external flexibility and labour turnover was positive and marginally significant ($p < .10$), for system 3 external flexibility and labour turnover interacted negatively with the HRM variable ($p < .05$).

According to the authors, the benefits of a functionally flexible workforce are enhanced by a combination with advanced work practices. The lower magnitude of the external flexibility coefficient in the interaction term with system 1 compared with the individual coefficients in regression equations without interaction terms was interpreted by the authors as evidence for “conflict between the use of external flexibility and the progressive work practices represented by HRM System 1.” (op. cit., p. 301). The negative interactions of system 3 with external labour and labour turnover were, according to the authors, due to the fact that the benefits of the progressive work practices in such a hybrid system using a limited amount of innovative practices are outweighed by the negative effects of external flexibility and labour turnover on innovation. The paper therefore provides support for contingency arguments.

Wang et al. (1999) tested the contingency hypothesis by using cost-leadership, innovation and quality as business strategy variables by calculating interaction terms between HRM and the strategy measures. No business strategy was found to moderate the influence of HRM on organisational performance.

Youndt et al. (1996), after having assessed the universalistic effect, added interaction terms of their two HRM systems (administrative and human-capital enhancing) and the strategies (quality, delivery and scope flexibility, and cost). Entered as a set, the interaction terms accounted for additional variance only for customer alignment (rise in $R^2 = .12$, $p < .05$). Thus, the basic moderation hypothesis that strategy moderates the HRM-performance relationship is supported for one outcome. More specifically, certain interaction effects were investigated. It was predicted that a cost-strategy moderates the effect of an administrative HR system positively, and that quality and flexibility strategies moderate the relationship between human-capital enhancing HRM and performance. Across the three outcome measures (machine efficiency, customer alignment, productivity), the interaction term quality strategy and human-capital enhancing HR system was significant ($p < .05$). The individual human-capital HR coefficients changed signs to negative and were significant in two cases. Therefore, strong support was obtained for the interaction between quality strategies and human-capital enhancing HRM. The interaction effect between cost-strategy and administrative HRM has generally the expected signs, but only one significant coefficient for machine efficiency ($p < .05$). No support was found for the predicted flexibility-strategy and human-capital enhancing HRM interaction. Therefore, some support was found for the strategy moderation effects, particularly for quality and human-capital enhancing HRM. The authors concluded: "These findings imply that it is misleading to suggest that human-capital enhancing HR has a general main effect on performance." (Youndt et al. 1996, p. 854).

Observation 19: There is mixed support for external fit based on traditional classifications predicting that less sophisticated HRM is beneficial for cost reducers and more sophisticated HRM for quality enhancers and innovators

Observation 20: There is good support for alternative fit propositions differentiating HRM use for strategy support qualitatively or seeing HRM as trigger for successful strategy implementation.

3.1.2.2.3 Other contingencies

Bae & Lawler (2000) investigated whether organisations emphasising higher speed in firm activities and services for internal and external customers enjoy higher organisational performance, measured both subjectively and objectively. Using subjective performance as dependent variable, the speed variable was not significant. In the OLS regression model with objective financial performance as dependent variable, the speed variable was significantly, but negatively related to performance ($p < .01$ in contemporaneous financial data and $p < .05$ in subsequent financial data). According to the authors, the negative evidence regarding the hypothesised linkage between speed in firm activities and performance is to be regarded with caution as “a good test of these propositions was limited by concerns regarding the construct validity of our speed scale” (Bae & Lawler 2000, p. 512).

Kelley (1996), as discussed in Chapter 3.1.2.1, failed to find a strong universal effect of participation. In the full regression model with many control variables, participation lost significance, however the other two factors changed only slightly and remained significant (with the union factor related to higher productivity and the traditional craft factor to lower productivity). Thus, unlike the union/seniority factor, participation had no independent effect on performance. Rather, participative bureaucracy productivity advantages (as in the limited model where participation was significant) were exclusively due to differences in technology and operations strategy (which are mostly highly significant). Further regressions (full models) were run to investigate whether there are differences between smaller single-unit plants and larger branches of multi-unit companies. Interesting results appeared: participation had no universal positive effect in all plants and neither was the union/seniority system consistently inferior. Big branch plants were more productive with participation structures ($p < .01$), independent of production technique used. Smaller firms, however, only benefited from participation, if they used programmable automation production technology ($p < .05$). Conversely, smaller plants enjoyed higher productivity with a union/seniority system, irrespective of production technology ($p < .10$).

Observation 21: Sophisticated HRM is not superior in any setting. Interactions with organisation size and production technology used moderate the influence of HRM.

Koch & McGrath (1996) tested whether capital intensity moderates the HRM effect on performance. When entering the interaction terms of capital intensity with the HR variables, all were significant and positive. Adjusted R² rose significantly from .289 to .36. Whilst in the first model without interaction terms capital intensity had had a positive individual effect, in the model with the interaction terms it became negative and significant, suggesting that it is the interactions between HRM and capital intensity, not capital intensity alone which impact on performance. To use a more parsimonious measure, an overall HR sophistication index was calculated and found marginally significant ($p < .10$). In a model with this index and capital intensity, both were significant. When entering the interaction term, both the HR index and the interaction term were significant at $p < .001$ whereas the coefficient for capital intensity lost significance. Adjusted R² did not decline significantly in the more parsimonious measure. Thus, capital intensive environments where a small number of employees control large costly fixed assets can moderate the HRM-performance relationship.

Observation 22: Capital intensity can moderate the influence of HRM on performance.

MacDuffie (1995), in addition to testing universalistic predictions, investigated whether the integration of HRM and work systems in the 'organisational logic' of flexible production including minimisation of buffers promotes organisational performance. A 'production organisation index' combined the three indices HRM, work systems and buffer minimisation in both additive and multiplicative form. This index was significantly related to higher productivity ($p < .01$), indicating that higher use of flexible production was related to higher productivity. When entering the three indices simultaneously, the HRM and work systems interaction stayed significant, but not work systems alone. The two-way interaction between buffer minimisation and work systems was significantly related to higher productivity ($p < .05$) and work

systems' interaction with HRM as well ($p < .01$). The interaction of buffers and HRM was not significant. When the interaction terms were entered, individual coefficients lost significance, and adjusted R^2 rose significantly over the simultaneous inclusion of the three indices. A three-way interaction of the indices was significant at $p < .01$ and predicted productivity even better. Adjusted R^2 rises again over both models. Thus, strong evidence was found for the effectiveness for productivity of HRM being contingent on its integration with flexible production.

Identical procedures were applied with quality as the dependent variable. The two versions of the combined production organisation index were significantly related to quality ($p < .01$). When entered simultaneously, only HRM stayed significant ($p < .10$). The two-way interactions buffer minimisation and work systems were, as expected, related to higher quality, but the buffers and HRM interaction is unexpectedly positive. Adjusted R^2 rose significantly. The three-way interaction term was insignificant. Whereas there was strong support for the contingency relationships for productivity, the results for quality are more difficult to interpret, particularly the divergence between negative individual, but positive interaction effects (note that negative coefficients denote higher quality i.e. less defects). Bearing in mind that the components of MacDuffie's (1995) work systems are part of usual HPWS lists and that one interaction was strongly related to higher quality, moderate support was found for a positive integration effect of HRM in flexible production systems. This is further supported by the production organisation index combining the individual indices. HRM effects can therefore only be understood when analysing their integration within the organisational logic.

Observation 23: The integration of HRM in the wider organisational logic can have performance effects rather than HRM per se.

McNabb & Whitfield (1997) explicitly integrated the relationship between unions, innovative work practices and organisational performance. In a multinomial logit model, the presence of a closed shop emerged as significantly negatively associated with the joint adoption of team work and flexibility ($p < .05$). The presence of a

recognised union, however, was positively associated with such adoption. The presence of a closed shop did not have an effect on financial performance per se, and the presence of a recognised union had a negative effect on performance. The interaction effect of union presence and both innovative work practices (i.e. flexible assignments and team working) was positively significant ($p < .01$). The interaction terms between closed shop and team working only and of team working and flexibility in combination reduced significantly establishments' performance. The union effect was very similar when distinguishing single and multiple unionism. Thus, despite an individual negative effect on performance, innovative work practices and unionism interacted in a way to promote higher firm performance. Closed shop arrangements, not having an individual effect, interacted with flexible practices to reduce firm performance.

Observation 24: Different unionisation types can interact with work practices differently.

3.1.2.3 The configurational approach and the HRM-organisational performance link

Delery & Doty (1996) tested configurational predictions in three ways. On a rather simple level, the similarity to an ideal type employment system was used as test. Secondly, the employment system's similarity to the ideal-type system appropriate for the organisational strategy was used. Finally, employment systems can be understood as opposite ends of a continuum with infinite numbers of effective hybrid-combinations resulting in fit. The hybrid HR system must then correspond exactly proportionally to the deviation of business strategy from the ideal types. Testing of these propositions resulted in no support for either of them. Assuming that this result was due to an inadequate (i.e. too high or too low) number of ideal type systems, exploratory ex-post analyses were performed. Through these it was found that banks whose employment system more closely resembled the market-type employment system had significantly higher ROE and ROA. However, the support

for this proposition is very limited and cannot match the support for the universalistic and contingency approach Delery & Doty (1996) found in their analyses.

Observation 25: Support for configurational predictions is very limited

3.1.2.4 The universal relevance of HRM

As mentioned, universal relevance refers to the presence of external conditions favouring the adoption of a particular business strategy which in turn requires a certain HRM system. In Hoque's (1999a) study, support for this approach was found. Those organisations adopting sophisticated HRM in conjunction with a quality-enhancer approach outperform most other categories on the organisational outcomes dimensions (and the HR outcomes) with the exception of the HRM adopters whose business strategy could not be classified.

Observation 26: HRM can be universally relevant in a particular context.

3.1.3 The HRM-HR outcomes link

Appelbaum et al. (2000) analysed five subjective worker outcomes of HPWS, i.e. trust, intrinsic rewards from work, organisational commitment, job satisfaction and work-related stress. In each of the three industries investigated in the sample, the scale measuring employees' opportunity to participate in decision making was significantly and positively related to *trust* ($p < .001$), defined by trust in management, good labour-management relations and perceptions of fairness. With some industry variation, trust was also positively and significantly related to other HPWS elements. Employment security in particular was associated with trust.

Intrinsic rewards refer to the experience of a challenging work requiring creativity and skill utilisation. Across all industries, the opportunity to participate scale was related positively and significantly to intrinsic rewards. With regard to the scale's component measures, self-directed teams had a different impact in different

industries: positive in medical electronics, negative in apparel, and unrelated in steel. Appelbaum et al. (op. cit.) explained this with the different nature of work i.e. less individual freedom over pace in apparel, but more challenging work in medical electronics. White-collar workers in medical electronics experienced higher intrinsic rewards than blue-collar workers, and apparel workers reported fewer opportunities to utilise their skills and knowledge than their colleagues from other industries. The authors concluded that high-skill work is more strongly associated with intrinsic rewards than low-skill work.

Commitment is characterised by identification with the employer, the attachment to the organisation (intention to stay) and the willingness to expand effort (Appelbaum et al. 2000). Except from apparel, the opportunity to participate scale was positively and significantly related to commitment. Much of these effects of HPWS on commitment was mediated by trust and intrinsic rewards (in medical electronics fully, in steel about half). Skills were generally unrelated to commitment, but several job stressors had a negative effect. In steel only, participation opportunities were related to *satisfaction*. For the component scales, there was some industry variation, but in all industries, perceptions of fairness of pay were significantly positively related to satisfaction ($p < .001$). The job stressors co-worker conflict, unsafe and unclean environments and inadequate resource related negatively and significantly to satisfaction

Stress was measured in two ways: the presence of certain stressors (overtime, role overload, co-worker conflict, physical surroundings and resource inadequacy) and the overall feeling of being stressed. With the exception of role overload, the participation components were negatively and significantly related to the stressors (with stressors as the dependent variable). Interestingly, however, off-line team membership was positively related to three of five stressors. With regard to the subjective experiences of stress, no effect of the overall opportunities to participate scale was found in any industry. With the exception of informal training in apparel and wages in electronics, no practices were positively and significantly related to

stress; many HPWS components are, in contrast, negatively related (Appelbaum et al. 2000).

Arthur (1994) found through regression analyses that the objective HR outcome labour turnover was twice as high in traditional control HR systems as in commitment oriented systems ($p < .05$)

Berg et al. (1996) found in an apparel industry study no statistically significant difference of mean values of module and bundle workers in terms of the subjective indicator organisational commitment. However, module workers did report that their jobs had become more stressful in the last two years.

Berg (1999) evaluated workers' responses to subjective overall job satisfaction measures in the steel industry. HPWS elements were divided into process variables (participation in self-directed work teams, on-the-job learning, formal training, communication, membership in off-line committees) and workplace environment variables (employment security, management relations, participation in departmental decisions, consultation of workers for work rules changes, performance pay, assistance with work-family responsibilities). Four-step regressions were used: first controls were added, then process variables, later workplace environment variables, and finally job design variables. Among the controls, perceived fairness of pay was significantly related to satisfaction ($p < .01$). Adding the process variables, self-directed ($p < .01$) and off-line team membership ($p < .05$) and on-the-job learning ($p < .01$) were significantly related to higher satisfaction. After the next step, only on-the-job training stayed significant. Work-family balance and employee-management relations were significant predictors of satisfaction ($p < .01$). This is not surprising, according to Berg (op. cit.), since the prevalent long shifts require such policies to increase satisfaction. Notably, employment security, consultation and participation were not significant. In the final model with the job design variables, the ability to utilise one's knowledge and skills had strong positive effects on satisfaction ($p < .01$) as did perceived autonomy ($p < .05$). Stress affected satisfaction negatively and significantly ($p < .01$). The lack of evidence for job security, consultation and

participation was explained by the author by the fact that, industry-wide, these issues have been resolved since the early 1990s, thereby no longer affecting satisfaction directly. However, indirectly, good management relations had an effect on satisfaction. Berg (1999, p. 130) summarises: “Jobs that allow workers to use their knowledge and skills, provide some autonomy and provide opportunities for learning lead to higher levels of job satisfaction.”

Fey et al. (2000) distinguished managers and non-managerial employees and found that managers exposed to non-technical training ($p < .01$), higher salary levels ($p < .01$) and decentralised decision making ($p < .10$) reported significantly better subjective HR outcomes such as motivation, retention, and capability development. For non-managers, job security ($p < .001$) and non-technical training ($p < .10$) were found to be important. According to the authors, the conditions of the Russian labour market are more favourable for mobile managers who are more motivated by pay than job security which was important for non-managerial employees with less mobility in the labour market.

Guest & Hoque (1994), in their non-unionised establishments study, investigated both subjective and objective indicators of HR outcomes. Four HR types were used (see Chapter 3.1.2.1 for an explanation of the types). According to the Chi² analysis, the ugly reported the highest staff quality levels, however, multivariate analysis found highest quality from the good followed by the lucky. Surprisingly, the ugly demonstrated the highest HRM policy and practice quality, followed by the good. These two types reported significantly better HR policies than the lucky and bad. The ugly reported highest flexibility of staff and ability to move between jobs, closely followed by the good. Multivariate analysis showed that the bad were significantly less flexible than the ugly with the good being more flexible. Flexibility to adjust workforce size was also highest among the good. Line manager enthusiasm for HR policies was also greatest by far for the good. In total, the good showed most consistently best HR outcomes, especially in the multivariate analysis with controls. However, the ugly performed surprisingly well which might be caused by the existence of a coherent strategy. The bad generally performed poorly as predicted.

Industrial disputes were lowest among the good and the ugly performed worst with the highest number of disputes. The good, again, had the best result for labour turnover, followed by the lucky. Bad and ugly had much higher turnover, the ugly the worst record on absence.

Guest (1999) analysed workers' experiences with HRM and their subjective assessment of the 'psychological contract' defined as reciprocal expectations between employee and organisation by Schein (1987), of their satisfaction and well-being and motivation. *Psychological contract*: The higher the number of HR practices, the higher the ratings of fairness, of trust in management, and of the perception that management has kept promises or commitment about job demands. A Chi²-test of groups with differing amount of experience of HRM revealed high statistical significance ($p < .0001$). *Satisfaction and well-being*: Similarly, the experience of more HR practices was also associated with feelings of security and overall satisfaction. However, the findings for experience of excessive pressure were not that straightforward. On the one hand, very low incidence of HRM was associated with high pressure 'all the time' as well as very high incidence which was associated with high pressure 'quite often'. *Motivation*: Those working in organisations with high incidence of HRM reported higher motivation than those who do not experience many HR practices.

In further regression analyses, Guest (1999) investigated the role of the psychological contract as a mediator between HRM and HR outcomes. Eight items were found to have a significant impact on the psychological contract and explained 50% of the variance: high involvement organisational climate, adoption of a greater number of HR practices, lower expectations of being made redundant, working shorter hours, working in smaller organisations, high salary, not being union member, work in sector other than traditional industry/manufacturing. Twenty-nine percent of the variance in job satisfaction could be explained by a positive psychological contract, higher salary, working in a high-involvement climate, lower education, service sector work, employment in temporary/fixed term rather than permanent jobs. Similarly, for job security, experience of pressure, and motivation,

the psychological contract emerged as, among others, in each case as one significant coefficient, indicating that HR practices have an indirect effect through the psychological contract and attitudinal factors. The impact of HR practices on workers depends according to Guest on workers' evaluations of practices. "Generally, the greater the number of HR practices affecting them, the more positive their assessment of the psychological contract, and the more positive the psychological contract, the more positive are a range of workers' outcomes." (p. 21).

Hoque (1999a) found in a study of hotels that HRM was positively and significantly associated with ability to move staff, work quality, commitment, job satisfaction and staff flexibility, but not absenteeism (all $p < .01$). When distinguishing between the different strategic types, positive HR outcomes (except staff quality) were significant for quality enhancers, and commitment and satisfaction also for cost reducers.

Huselid (1995) assessed HPWS impact on the objective indicator employee turnover. When entered individually and simultaneously, the HPWS factor 1 (employee skills and organisational structures) was negative and significant ($p < .10$), factor 2 insignificant. Thus, it is the skill-enhancing practices that were associated with lower employee turnover.

Liouville & Bayad (1999), based on the responses of managers only, examined HRM associations with intermediate HR outcomes (turnover, absenteeism and job satisfaction). HRM correlated significantly with intermediate HR outcomes ($p < .01$). In an ANOVA, HRM had a significant positive impact on these outcomes ($p < .05$).

Meyer & Smith (2000) investigated HRM effects on organisational commitment and hypothesised that nature and strength of the effect depend on the perception of HRM practices by employees. After reviewing the literature on organisational commitment, Meyer & Smith (2000) noted that "it cannot be assumed that the implementation of a particular practice (e.g. training) will necessarily enhance commitment" (p. 320). Rather, employees may interpret training as an indicator for organisational motivation. Employees were asked to rate the quality of HRM practices as perceived

by them, to indicate the degree of organisational support received as well as the degree of procedural justice. Organisational commitment types (normative, affective, and continuance) were measured as dependent variables. Using path analyses, the authors found that the perceived quality of HR practices affected affective commitment primarily through perceived support whereby HRM impacted on both perceived support and justice. Justice influenced perceived support and organisational support was thus the main mediator between HRM and commitment. Career development had a direct effect on affective commitment, and benefits impacted normative commitment directly. Only gender and tenure influenced continuance commitment. All reported correlations were significant at $p < .05$. A climate of concern and caring for employees is thus instrumental in HRM practices affecting commitment positively.

Ramsay et al. (2000) found that HPWP-style practices had a positive and significant effect for all the employee outcomes predicted by the HCM and HIM models, i.e. job discretion ($p < .05$), management relations ($p < .001$), pay satisfaction ($p < .001$) and commitment ($p < .001$). In regressions on commitment as a dependent variable, the three HRM scores were used as base case model, then job discretion, management relations and pay satisfaction were added stepwise. In the first equation only the HPWP style score was significant ($p < .001$). When adding job discretion, both were significant at $p < .001$ and R^2 explained an additional 7.6% of the variance ($p < .001$). This is counter the HCM expectation which would predict that discretion should be the key explanatory variable for commitment; instead, the HPWS effect decreased only marginally. Adding management relations to the model, the coefficient was significant ($p < .001$), job discretion stayed significant ($p < .001$) and significantly more variance was explained (change in $R^2 = .288$, $p < .001$). The HPWP variable however lost its statistical significance. Thus, HPWP affected commitment primarily by good management relations. In the last equation with discretion, management relations and pay satisfaction, all three coefficients were significant ($p < .001$). R^2 changed again significantly (.012, $p < .001$).

Overall, the coefficients suggested that commitment is affected by HPWS primarily through good management relations and to a smaller extent by job satisfaction. The alternative labour process model also was tested. Counter labour process predictions, HPWP had a positive effect on experienced job security ($p < .05$), but as predicted also on job strain ($p < .001$). The systems work practice score 1 (see Chapter 3.1.2.1 for a definition) was negatively associated with job discretion, management relations and commitment, systems work practice score 2 was positively associated with management relations, but negatively with job security. When including job security, discretion and work intensification, the HPWP coefficient on job strain did not change, and maximally 0.4% additional variance was explained. Thus, the tests supported the view that HPWP have a direct effect on strain (defined as experienced lack of time to get the job done and worries about work outside work hours), but no support was found for mediation effects (by discretion or insecurity).

Observation 27: HRM has generally a positive effect on HR outcomes.

Observation 28: Some evidence supports the view that HRM increases stress/strain

3.1.4 The HR outcomes-organisational performance link

D'Arcimoles (1997) found that absenteeism and organisational performance (i.e. productivity and return on capital employed ROCE) were significantly and negatively related, both as immediate effects and with a time lag. Change in absenteeism was also related to changes in profitability. Similarly, another dissatisfaction indicator, the rate of work accidents was significantly related to a decrease in performance (however, only as an immediate, not as a lagged effect).

Katz et al. (1985) found high grievance rates negatively correlated to labour efficiency ($r = -.48$) and product quality ($r = -.18$, both $p < .01$). Workers' attitudes were significantly positively related to labour efficiency ($r = .40$) and quality ($r = .48$, both $p < .01$). Similar effects were revealed for the association of participation in suggestion programmes to labour efficiency ($r = .38$) and quality ($r = .73$, $p < .01$). In regression analyses, the disciplinary action rate was negatively associated with

labour efficiency ($p < .01$) and positively workers' attitudes ($p < .05$). Quality was significantly predicted by attitudes ($p < .01$) and participation in suggestion programmes ($p < .01$).

Koys (2001) conducted a longitudinal study to test whether it is employee outcomes that influence business outcomes or vice versa. Measures included employee perceptions of satisfaction, managerial accounts of employees' organisational citizenship behaviours, turnover records, customer satisfaction surveys, and financial data. Regression analyses revealed that the overall R^2 is much higher for the hypothesis that HR outcomes influence performance than vice versa (R^2 of .21 in comparison with .02). Significant beta-values were only found for the conventional hypothesis with HR outcomes as independent variables, not for the alternative control hypotheses that organisational outcomes influence HR outcomes. This study provides therefore strong evidence in favour of the direction of causality conventionally assumed by proponents of HRM.

Michie & Sheehan-Quinn (2001) tested the effects of three variables commonly referred to as HR outcomes on performance, i.e. labour turnover, grievance rates and industrial actions. Outcome variables were subjectively measured financial performance and innovation (product and process related). For both outcome variables, three regression models were specified, including different lists of variables. With financial performance as dependent variable, none of the three variables was significant. With innovation as dependent variable, labour turnover was found to be negative and significant ($p < .05$ for two models and $p < .01$ for one model), supporting the view that high labour turnover is negatively related to product and process innovation. Grievance rates and industrial action remained insignificant.

Patterson et al. (1998) assessed the impact of two dimensions of attitudes: job satisfaction (employees' satisfaction with a variety of job/work-related issues, e.g. promotion opportunity, autonomy, pay etc.) and organisational commitment (identification with, involvement in and loyalty toward the company). Outcome data for the three years prior to measurement of HR outcomes were available so that prior

performance could be controlled for. Subsequent performance was measured one year after attitude assessment. Twelve percent of the variance in subsequent profitability was explained by job satisfaction and 13% by organisational commitment. Twenty-five percent of the variance of subsequent productivity was explained by job satisfaction, 17% by organisational commitment. Prior performance was controlled for due to the possibility that subsequent performance is influenced by prior performance. Indeed, the figures were much lower, but still illustrate a significant impact: five percent of profitability was explained by satisfaction and commitment respectively, 16% of the variance of productivity was explained by job satisfaction, and 7% by commitment. Thus, even when controlling for previous performance, higher satisfaction and commitment explained additional variance in profitability and productivity whereby the effect on productivity is stronger.

Patterson & West (2000) examined the relationships between job satisfaction, organisational commitment, mental health and productivity and profitability in a longitudinal study as described above. Subject to investigation was the association of HR outcomes and subsequent performance. Job satisfaction correlated with subsequent profits ($r=.36$) and subsequent productivity ($r=.44$, $p<.01$). Interestingly, no significant correlation was found with prior performance. Mental health was unrelated to the performance indicators. Job satisfaction and commitment correlate very strongly ($r=.87$, $p<.01$). Mental health was negatively related to satisfaction and commitment ($p<.01$). Controlling for prior performance, job satisfaction explains additional 11% variance for *productivity* ($p<.01$) over the case with controls and commitment 8.5% ($p<.05$). When entering both simultaneously, additional 12.2% ($p<.05$) of the variance of productivity was explained, similar to the model with satisfaction alone. Thus, the effect of commitment was largely due to its covariation with satisfaction.

In the *profitability* regressions, satisfaction individually entered explained additional 8.2% of the variance ($p<.05$) and commitment 5.9% ($p<.10$). Simultaneous inclusion did not explain any additional variance. Furthermore, it was tested whether productivity mediates the HR outcome-profitability relationship. When controlling

for prior profits and entering subsequent profitability as control, R^2 changed from 23.3% to 71.6%, indicating strong dependency of profits on productivity. When entering job satisfaction to the model, no additional variance was explained.

Patterson & West (2000, p. 28) concluded that “productivity entirely mediates the relationship between job satisfaction and company profit.” In a concluding path analysis, three significant paths were identified. Firstly, prior productivity was found to influence prior profitability ($p < .01$). Prior productivity and job satisfaction (both $p < .01$) influenced subsequent productivity, which in turn (and exclusively) determined subsequent profitability ($p < .01$). Thus, job satisfaction and commitment predicted productivity and profitability, but the effect on profitability was entirely mediated through productivity.

Observation 29: There is consistent evidence that positive HR outcomes are associated with higher organisational performance.

Observation 30: Prior productivity has effects on subsequent productivity.

3.1.5 The mediation of HRM and performance by HR outcomes

Fey et al. (2000), having investigated HRM effects on HR outcomes and HRM on performance, included HR outcomes into a regression model of HRM on performance separately for managers and non-managers. The model with the HR outcomes was significant only for managers, and merit promotion as only HRM practice stayed significant. Path analyses indicated that pay for managers was a significant predictor for HR outcomes which in turn affect firm performance. Thus, there is some evidence for an indirect path from HRM to HR outcomes and from there to performance. This, however, was only significant for managers.

Huselid (1995) tested how much of the variance in financial performance is due to the moderated effect of HRM by turnover and productivity. Turnover and productivity were entered in regressions of HRM on performance. For both Tobin's q and GRATE, the coefficients of the factor scales became smaller. HPWS impact on

GRATE fell by 77%, and on Tobin's q by 74%. In the case of Tobin's q , both productivity and turnover gained significance in the equation, whilst factor 1 (employee skills and organisational structures) lost significance (without mediation effects both factors were significant). For GRATE, only productivity as a mediator was significant ($p < .01$) and factor 1 (the only factor previously significant) remained significant. This analysis supports the proposition of mediating effects of turnover and productivity on financial performance.

Katz et al. (1985) included Quality of Work Life (QWL) and industrial relations (IR) variables in regressions on labour efficiency and product quality as dependent variables. QWL alone had no positive effect in regressions on quality or productivity, but was only associated with performance in the correlational analysis. In contrast, the industrial relations variables had positive associations in both correlations and regressions with performance. A model including IR variables and QWL in comparison to a model including only control variables and QWL, R^2 rose with significance from .242 to .467 for labour efficiency and from .310 to .675 for quality. Based on these results, Katz et al. (1985, p. 522) concluded that "plants with comparatively good industrial relations performance tend to develop more extensive QWL involvement, and not vice versa."

Liouville & Bayad (1998) who had found that both the HRM scale as such as well as a high HRM cluster had significant impact on organisational and economic performance conducted within-cluster correlational analyses to explore the existence of links between HRM and the different performance indicators within each HRM system. In the two high HRM clusters the clearest links emerged, indicating that HRM outcomes and economic performance are linked. In the lower HRM clusters, only organisational and economic performance were found to be linked, but HRM outcomes and organisational performance were not connected.

As reported earlier, Patterson & West (2000) and Patterson et al. (2000) found evidence that productivity mediates the effect of HRM and HR outcomes (i.e. job satisfaction and commitment) on profitability. Patterson et al. (2000, p. 21), stating

that their results have been obtained by controlling for background factors such as size, union membership and sector as well as controlling for prior performance, noted: “The longitudinal nature of the data encourages a causal interpretation.”

Observation 31: The results from the few longitudinal studies imply a causal connection from HRM or HR outcomes to organisational performance.

Ramsay et al. (2000) conducted the most sophisticated test of links within the ‘black box’ between HRM and performance to date. The authors tested the mediation effects between HRM and organisational performance. Due to the greatest impact on employee outcomes, the HPWP-score was used only. In a first step, only the HPWP score was included in the regressions, and the intermediate variables were added subsequently. As reported, initial results supported the universalistic model. When HPWP scores and mediating variables were entered simultaneously, the HPWP coefficients were only marginally smaller and remained highly significant ($p < .001$). The only other variable consistently significant and with expected signs (with the exception of absence rate) was commitment, albeit with comparatively small coefficients. The change in R^2 was significant with the one exception, but only very little additional variance was explained (maximal R^2 change was 0.6%). Thus, neither did commitment explain much variance of organisational performance as predicted by the HCM model, nor did discretion (consistently insignificant) and management relations (with the exception of labour productivity) as predicted by the HIM model.

The labour process model did not receive much support either. When including HPWP, discretion, strain and security, the additional variables explained significantly incremental variance, but maximally 0.7% in addition to the variance explained by HPWP alone. When including the work intensification measure and technology innovation variables, work intensification accounted for sizeable changes in the variation on performance, particularly on productivity (change in $R^2 = .078$, $p < .001$). The other R^2 changes were small - between .001 and .026. The effect on productivity can hardly be surprising when considering that productivity is measured

as productivity benchmarked against competitors and work intensification is measured as *change* in productivity in the establishment over the last years. Overall, then, the important work of Ramsay et al. (2000) has essentially shown two things: firstly, HPWS have an influence on performance (as predicted by the universalistic approach); secondly, however, despite the use of a large scale survey with high response rate and the – so far only – test of two models (one positive and one critical model), the processes by which HRM affects performance have not become more obvious. Besides the immediate HPWP effect few intermediate effects have been found to support either labour process or HPWS models.

Observation 32: Productivity mediates the relationship between HRM and profitability.

Observation 33: Evidence that attitudinal and behavioural HR outcomes mediate the HRM-organisational performance relationship is limited.

3.1.6 Human resource capabilities links

Wright et al. (1995) linked the concept of human resource capabilities of the resource-based view of the firm (RBV) to the concepts of strategy and performance in their study of NCAA basketball teams. A survey of coaches resulted in 16 skills which could be reduced to three generic factors i.e. basketball skills, attitude and physical ability. The same procedure for team skills resulted in the factors physical ability, shooting ability and athleticism. Speed and finesse strategies were identified. It was hypothesised that basketball coaches' preferred strategy influences skill representation in teams, that the consistency of coaches' preferred strategy and the team strategy will result in higher performance and that strategy moderates the skill-performance relationship. Regression analyses revealed that strategy explained 1.2% variance in basketball skills (not significant), 2.5% if variance in attitude (not significant) and 13.7% in physical ability ($p < .001$).

Strategy consistency and performance were measured next. Performance was assessed in two ways: an objective team performance rating and subjective coaches'

ratings. Strategy consistency explained 4.3% of the variance of objective performance ratings ($p < .05$) and 3.2% of the subjective ratings ($p < .07$). Finally, the interaction of skills and strategy in its effect on performance was assessed. Strategies entered in a first step were not significant, indicating that no superior strategy exists. Adding team skills to the equation, 57% of the variance of objective ratings was explained ($p < .01$) and 24% of the variance of subjective ratings ($p < .01$). For the coach assessment, only team orientation was a significant predictor, while for the objective ratings both team orientation and athleticism were significant. The interaction terms explained an additional 8% ($p < .05$) of the subjective and 9% of the objective ratings' variance. The interactions of shooting with speed and finesse strategies were associated with higher performance for subjective ratings, and the interaction of finesse and athleticism with lower performance.

In the equations for the objective ratings, speed and team orientation as well as finesse and team orientation interactions were related to higher performance, and speed and athleticism and finesse and athleticism were related to lower performance. Obviously, strategy somewhat influenced skill acquisition. Consistency of skills and strategies was associated with higher performance. There is also some evidence that some skills were associated with higher performance. The strategy-skill interactions explained additional variance, however, obviously different strategies did not require different skills to be successful. Rather, generic skills seemed to be needed for successful strategy execution (Wright et al. 1995).

Observation 34: Human resource capabilities issues are largely neglected in quantitative studies.

Observation 35: There can be links between competition strategy and skill acquisition and human resource capabilities and performance.

3.1.7 Other issues

Appelbaum et al. (2000) made an interesting observation in the apparel industry, illustrating some complex HRM and work systems effects. Twelve apparel plants

were selected in which the same product was produced both with the traditional Taylorist bundle system and with the modern, team-based module system of work organisation. HPWS in apparel are said to correspond to the module system characterised by the substitution of traditional piece-rates through group-based rates linked to quality and quantity, the provision of training and incentives. As reported earlier, no significant effect of modules on quality was found. However, throughput time in modules (i.e. the time between cut parts ready for assembly and readiness for shipping) was significantly lower, on average by 94.1%. Modules were also associated with higher capital costs since more machines need to be ready for multi-skilled workers. However, these were offset by potential savings on space associated with module assembly (average 36%). On average, there were no direct savings of labour costs in the sample because module adoption was often accompanied by higher target wage rates. However, excess costs (usually arising from derivations in standard operations, e.g. through style changes) were reduced by 15% on average, and supervision and support costs (indirect labour not contributing directly to rent generation) were reduced by 10% on average. When assuming that the wage rates had been held constant with module adoption, labour cost savings of net 14% on average had occurred, attributable to reduction of excess costs and indirect labour costs.

Observation 36: A mere concentration on behavioural effects of HRM practices fails to address important additional effects that indirectly affect organisational performance.

Deery & Iverson (1999), unlike other researchers in the area, investigated interconnections between factors affecting a cooperative industrial relations climate, its impact on union loyalty and organisational commitment and other organisational variables on organisational performance measures. Exogenous variables such as job related, demographic, union and organisation related issues were measured at first. One year later, the intervening IR variables, i.e. IR climate, organisational commitment and union loyalty were measured. Six months later, organisational performance of bank branches was measured. Based on path analyses, the authors

noted that “a co-operative industrial relations climate was associated with significantly higher branch level productivity and significantly lower absenteeism.” (Deery & Iverson 1999, p. 5). Being loyal to a union and seeing the union as instrumental for achieving work environment improvements were also associated with higher productivity and lower absenteeism as was organisational commitment. Similar results were found for union satisfaction and a collectivist work orientation. Similarly, perceptions of procedural justice (due process procedures) and openness between management and employees were also linked to higher productivity. No such relations for quality and customer attrition were found.

Observation 37: A positive industrial relations climate can be beneficial to productivity.

Guest & Peccei (1994) conceptualised four different models of HRM integration and investigated the effects on different measures of organisational performance in the NHS. *Organisational integration*, the first model, is understood as presence of a coherent HR strategy “‘owned’ by the board of a company and readily accepted by the line managers” (p. 220). *Policy integration* instead refers to the integration of three types of policy priorities which can be the development and operation of routine administrative systems, professional competence in HRM mainstream activities, and finally HRM priority focusing on the development of coherent policies to achieve highly competent and committed employees. *Functional integration* refers to high quality of HR staff which is said to result in more effective management of human resources. *Process integration* is the final perspective. It is concerned with the efficiency of personnel processes and the effective delivery of personnel activities to internal customers.

The authors used two types of measures: subjective measures of HR effectiveness e.g. ensuring integrated range of rewards reinforcing HR strategy, providing incentives for high performance etc. (which are labelled qualitative measures by the authors) which measure administrative, professional, HRM and overall effectiveness and objective quantitative measures of difference in percentage points of desired and

actual labour turnover and absenteeism. Labour turnover and absenteeism were not related. The subjective measures, however, were intercorrelated. No significant correlations were found between subjective and objective measures. Overall, the independent variables could not significantly predict the objective indicators of effectiveness at all. For the subjective measures, independent variables explained between 24-35% of the variance.

Most support could be found for the organisational integration model, particularly the policy formalisation variable (i.e. the number of issues with a written policy agreed by the board) which was significant across the subjective outcomes. Non-personnel dominance was associated with lower professional effectiveness, whilst personnel influence over major decisions was associated with higher HRM effectiveness. This finding was contrary to predictions that line management involvement should be associated with higher effectiveness. Less support is found for policy integration. High priority for administrative level issues, for professional or HRM-level issues was no predictor of any form of effectiveness. However, for a line-manager sub-sample, administrative-level priority predicted the effectiveness index negatively and significantly. Only based on the personnel managers' responses, the authors found that consistency within a policy level did make a significant and positive difference for the subjective results (however, not supported based on the line-managers responses). The functional integration thesis predicting benefits through well-staffed, professional HR departments with board representation was not supported at all. Finally, the process integration approach including personnel efficiency and responsiveness generally predicted significantly subjective effectiveness.

Taken together, two models consistently supported the causes of HRM effectiveness: organisational integration and process integration. HR policy owned by top management and laid down in formal and written policies was rated effective on subjective measures, based on results from both personnel and line managers. Furthermore, the way personnel staff operates was found more important than seemingly well-staffed HR departments. Perception of the HR staff exerting high

quality and being responsive predicted effectiveness, particularly among line-managers. Other interesting findings included that personnel and line managers' reports differed in regard to who dominates decision making in 17 HRM areas. According to personnel managers, more than half of the areas were dominated by line managers, and line managers' scores were even higher. Also, HRM effectiveness in certain areas was rated differently by HR and line managers (Guest & Peccei 1994).

Observation 38: HR and line managers assessments of HRM in certain areas differ as well as their assessment of their influence on HRM.

Observation 39: A coherent HR strategy owned by the board and accepted by line managers is important for subjective ratings of HR effectiveness.

Patterson et al. (1998) not only investigated the previously discussed links between employee attitudes and performance and HRM and performance, but also evaluated the impact of organisational culture and other managerial practices on company performance (i.e. labour productivity and profitability as profits per employee). The study was longitudinal as described earlier. Organisational culture: Different cultural models were specified and their performance effects examined: A human relations model, open systems model, rational goal model, and internal process model.

The human relations model is characterised by a primary emphasis on trust, belonging and participation with a concern for employee welfare, autonomy, training emphasis and supervisory support. The open systems model places a primary emphasis on change and innovation with an outward focus, flexibility, innovation and reviewing objectives. The rational goal model has a primary emphasis on well-defined objectives, productivity, goal attainment with an emphasis on quality, vision, pressure to produce and performance feedback. The internal process model places an emphasis on stability, internal organisation, rules, formalisation, efficiency and tradition. Whereas the internal process model was not a significant predictor of profitability, the open systems model explained 3% variance of profitability variation, the rational goal model 21% variation in productivity (particularly

emphasis on performance feedback was a significant predictor), and the human relations model 29% of the subsequent productivity changes, most of which could be attributed to the emphasis on employee welfare central to the model. When computing an average score for each within the four models and comparing their predictive power, the following order was revealed: human relations, internal process, rational goal, and open systems. Thus, higher productivity is promoted by a culture emphasising concern for welfare, training, and autonomy.

Managerial practices: To evaluate HRM's relative impact, Patterson et al. (1998) examined the effects of business strategy, emphasis on quality, use of advanced manufacturing technology (e.g. CNC, CAD) and R&D besides HRM on performance. Regression analyses revealed that, in comparison, HRM explained by far the greatest amount of variance for both change in profitability and productivity. Strategy explained between 2-3% of change in performance, but not significantly. Quality emphasis and use of advanced manufacturing technology explained each 1% of change in profitability and productivity. R&D explains 6% variation of productivity (but not significantly) and 8% of profitability. HRM explained 17% of variance for change in profitability and in productivity. Interestingly, the relative impact of HRM was great compared with other managerial practices. The investigation of culture revealed that it is the rather 'soft' HRM culture that explains best subsequent performance changes with emphasis on welfare, training and autonomy.

Observation 40: Compared to other managerial practices, the relative impact of HRM is high.

Observation 41: A culture reinforcing welfare, training and autonomy is associated with better performance.

In their later study, Patterson et al. (2000) analysed whether integrated manufacturing (IM), comprising advanced manufacturing technology, just-in-time inventory control and TQM actually empowers or deskills work, thus taking up a topic of central to the labour process perspective. Empowerment is comprised of both job enrichment and

skill enhancement. Integrated manufacturing and empowerment correlated positively ($r=.53$, $p<.01$). Also the component indices of IM correlated with empowerment. The strongest link was between TQM and empowerment ($r=.56$, $p<.01$). Therefore, contrary to the LP models claiming deskilling, empowerment was positively associated with integrated manufacturing. However, it must be borne in mind that this conclusion is based on the presence of certain practices as described by HR managers, not the experiences of employees.

Observation 42: Integrated manufacturing is associated with the presence of skill enhancing and job enriching empowerment employment practices.

Tsui et al. (1997) differentiate balanced and unbalanced employee-organisation relationship approaches. Balanced approaches can take two forms. Firstly, the so-called 'quasi-spot contract' is characterised by short-term and stringently defined, purely economical exchange relations between the parties. Secondly, the 'mutual investment approach' is more flexible and requires both parties to go beyond explicitly defined exchanges, e.g. by making suggestions to improve work design. Whereas this involves the acquisition of firm-specific, non-transferable skills by the employee, the employer in exchange provides longer-term career opportunities. Unbalanced approaches also can take two forms. In 'under-investment' relations, the employee is expected to undertake broad, open-ended obligations, but this is not reciprocated by the employer through, for example, offering training or a career, whereas the over-investment approach is characterised by the opposite.

Employee data were used to assess attitudinal effects of the relationship types (i.e. affective commitment, perceived fairness, trust in co-workers). Supervisors and peers rated employee performance in regard to basic task performance and organisational citizenship behaviour (i.e. behaviours to the benefit of the organisation beyond contractual definitions). When controlling for a number of external variables, the employee-organisation relationship accounted for 7% of the variance of the behavioural outcomes and 5% of the attitudinal outcomes ($p<.001$). The ANCOVA for behavioural outcomes indicated that the relationship variable was significant for

core task performance and citizenship behaviour, but not for dependable continuance and absence. The latter outcomes showed significant coefficients for age, tenure (both) and either gender or supervisory support.

For the attitudinal measures, the employee-organisation relationship was significant for commitment and perceived fairness, but not for trust in co-workers. For all attitudinal outcome variables, a number of controls were significant. Company was consistently significant, indicating that attitudes vary systematically across companies. Generally, the mutual investment approach was consistently supported for various attitudinal and behavioural measures such as core task performance, and organisational citizenship behaviour which goes beyond immediate job tasks. Employees under over-investment conditions generally produced good results as well, but with the notable exceptions of less dependability (as rated by supervisors) in regard to continuation of employment. This unexpected finding might be due to expectations of employees that these unbalanced, but for them positive conditions, are not likely to last.

The under-investment relationship generally produced the worst results, both on behavioural and attitudinal levels. Higher absence and poorer core-task and citizenship performance are characteristic of this employment type. According to the results, quasi-spot contracts and under-investment were both associated with lower employee performance. An implication of the findings on the job level is that “offering open-ended inducements and a high level of social exchange to employees is more important than a balance in the exchange.” (Tsui et al. 1997, p.1116).

Observation 43: Offering open-ended inducements and a high level of social exchange to employees is more important than a balance in the exchange.

Delery & Doty (1996) had limited their analysis to the job of loan officer in banks following a logic consistent with Lepak & Snell's (1999) approach. They found strong support for the universalistic view and moderate support for the contingency perspective. Sanz-Valle et al. (1999) found support for Schuler & Jackson's (1987)

model and also revealed that certain HRM practices did not vary with strategy but with job category, or more precisely, job level. Recruitment practices did not vary between the strategies. Here, job level (managerial or non-managerial) explained HRM variance. Job level, not strategy also explained different qualitative appraisal criteria: managers' appraisals were longer-term and more individually oriented than employees' appraisals which were more short-term and group oriented (even though individual appraisals dominate in both groups). Furthermore, Fey et al. (2000) found support for the universalistic perspective and mediation effects on organisational outcomes by HR outcomes. Interestingly, however, the practices affecting HR outcomes and organisational performance were different for managers and non-managers. In addition, mediation effects could only be found for managers.

Observation 44: Restricting the analysis to a core job most crucial to organisational success suffices to find positive HR effects.

Observation 45: Job levels can explain HRM choices partly better than business strategies.

Observation 46: Positive HR outcomes may require different HR practices for different employee groups.

3.2 Qualitative studies

Boxall & Steeneveld (1999) conducted a qualitative longitudinal study investigating HRM development in the context of the knowledge-based engineering consultancy industry in New Zealand. The analysis involved three companies (named Indigo, Red and Orange). In 1994, semi-structured interviews were conducted in each firm across all levels covering a range of points from job roles to HRM issues. In 1997, the key contacts were approached again so that changes in the firm context and management could be assessed. From the mid-80s to the early 90s the industry faced several problems: economic crises and a strong increase in competitive pressures posed survival threats to the engineering consultancies. By 1997, business climate had improved and the New Zealand economy displayed stable growth. The crisis was experienced and coped with differently by different firms.

Three indicators of performance were recorded in 1994 and 1997. Permanent headcount was used as an indicator for business significance and strength. Leverage ratio (team-leading shareholders /total staff) referred to profitability. Financial security was assessed as percentage of foreign income (i.e. higher degree of independence from national economic crises). All three firms coped well with the recession, however, the indicators do not allow for a conclusion as to which firm actually performed best.

From the three case studies Boxall & Steeneveld (1999) concluded that HRM can be strategic to firm survival and ongoing viability. All firms, though with different history and market coverage, took similar HRM choices to make their organisations more resilient in the face of a threatening environment. These changes were introduced integrated with business strategy changes. All three worked towards income diversification, Orange and Indigo internationally and Red diversified into local niches successfully. Since all firms were judged by their clients according to their senior staff quality, it was vital for all firms to retain a core of contract-winning senior staff. Another problem was the successful acquisition and retention of talent. As a response, share ownership was extended strongly to become and remain attractive to new talent and senior staff. According to the authors, potential ownership is the “institutional glue that holds the human capital in these firms together.” (Boxall & Steeneveld 1999, p. 459). Brown, another firm in the industry, failed to do so and subsequently did not survive. Orange enlarged its inner core by a merger, Indigo and Red restructured their inner core through radical changes in governance structures.

For the authors, the most important work of HRM consists in its contribution to credible leadership succession by building and renewing leadership capability. Whereas the case studies illustrated HRM’s role for ongoing industry membership and survival, the data gathered did not allow for conclusions regarding its contribution to sustained competitive advantage.

Observation 47: HRM decisions can contribute to firm survival during economic crises.

Observation 48: HRM decisions are interconnected with strategic business decisions.

Based on the observation that there are many successful companies with different HR practices, Cappelli & Crocker-Hefter (1996) argue that distinctive HR practices contribute to the creation of unique competencies within organisations differentiating products and contributing to increased effectiveness. The authors challenged the universalistic view by choosing pairs of equally successful firms which however differ in terms of HRM. The examples are taken from professional sports, retailing and service, professional service firms, the shipping business, food & beverages, business schools and financial services.

Sears and Nordstrom, large established retailers, were compared. Sears used sophisticated selection procedures and refined their predictive power over time, provided training, conducted morale surveys and paid a straight salary instead of high commissions. Employee turnover was low. In contrast, Nordstrom's HR appeared primitive in comparison. Much emphasis, however, was based on commissions and fast development opportunities. In contrast to the conservative, more product-oriented Sears, Nordstrom was fashion- and consumer-oriented. Sears' pay system induced good service and advice rather than pushing for fast sales. Nordstrom's internal competition system and sales-based pay went well with the relative autonomy and absence of strict rules characterising its culture. From the food and beverages industry, Coke and Pepsi were analysed. Coke, established 70 years before Pepsi, is part of the US culture. Its strategy consists in maintaining its position and concentration on its core business. Marketing builds on reputation. Managing at Coke, according to the authors requires deep understanding of the feel for the brand which must be internally developed. Consequently, liberal arts graduates, seldom MBAs with little experience were found to be hired and exposed to extensive training. Job security, seniority-based pay and promotion from within went alongside centralised decision making and little autonomy. Pepsi, instead, seeks out market

niches where Coke is not dominant. First, it was established as price leader. In contrast to Coke, Pepsi diversified much (acquired Pizza Hut, KFC) to create outlets for its drinks. Different businesses enjoy more autonomy. Business-experienced employees with advanced degrees were preferred and they are offered fast-track approaches and face high individual competition.

Overall, the case studies demonstrate that newer, fast-moving organisations do not develop competencies from within, but rely on the market instead. Organisations competing through dominance in established markets or niches were found to rely on organisation-specific capabilities developed internally. Historical investments may create inertia. The examples illustrate that competencies should drive business strategies, not vice versa. Thus strategy adaptation is easier and more promising than changing practices and competencies to fit a business strategy. According to my assessment, this interpretation is more conform with the RBV than Wright et al.'s (1995) conception that failure to act out a preferred strategy due to inconsistent human resource capabilities will result in depressed performance.

Observation 49: Organisations' history influences resource capabilities.

Observation 50: Longer established organisations tend towards an internal development oriented HR system, newer organisations tend towards a market-type HR system.

Doorewaard & Meihuizen (1999) investigated the HRM-performance relationship in eight German and Dutch management consulting firms. Based on a literature review, the authors distinguish between tailor-made solutions for new and rare organisational problems (expertise-orientation) and more standardised procedures and methods to familiar problems (efficiency-orientation) as management consulting strategies. According to the RBV, successful performance depends on the contribution of HRM to the realisation of strategic positioning. Thus, HRM needs to develop strategies and practices to elicit HR outcomes that contribute to organisational performance outcomes of expertise- or efficiency-orientation, both potentially successful performance outcomes. For HRM to be effective in this respect, the "uncertainty

stemming from the elusiveness of human resource” (p. 6) has to be reduced. This can be done by either bureaucratic regulation (e.g. strict orders, limited autonomy) or by human resource mobilisation (e.g. by eliciting commitment, responsibility, loyalty). The HR outcomes competence and commitment (affective, continuance, and normative) were selected. Based on interviews in the management consultancies on various levels, internal documents and sector analyses, the study was conducted. The companies in the sample all employed some mix of expertise- and efficiency orientation, but tended towards one strategy.

Expertise-orientation: In firms characterised by an expertise-orientation, the skilled consultant rather than a ready product was “sold”. Consultants enjoyed much freedom and rules were absent or scarce. According to the respondents, expertise-orientation required creative, innovative competencies. Thus, employees with original talents were sought who were creative, highly analytical, had a generalist orientation, had good overview and were able to put themselves in the client’s position. Clients expected them not only to offer an individual solution to a problem, but also to express their general vision of the client’s organisation. Despite high autonomy and an entrepreneurial climate, consultants felt part of the company in an affective way. The HRM outcomes were characterised as creative entrepreneurship. Thus, these firms applied the HRM approach of human resource mobilisation, expressing itself in two ways: informality and “bonds rather than binds” (Doorewaard & Meihuizen 1999, p. 10). Informality means that informal networking influences personnel flow management, recruiting and retaining expertise. Bonds refer to the fact that recruitment and retention are worked on by offering stimulating and challenging jobs, informal coaching and transferring culture to increase satisfaction and loyalty. Corporate culture with individual autonomy was emphasised strongly. Structure was not triangle-, but diamond-like with many senior consultants, sometimes supported by juniors in project teams. The consultant’s role was not so much solving the client’s problems, but facilitate clients solving their own problems. Recruitment aimed at identifying potential for senior staff. To avoid poaching from competitors, informal networks outside the sector were employed. In selection much effort was devoted to assess talent both formally and informally (creativity tests,

networks, personal references). Training, coaching and mentoring were considered highly important to build and expand existing capabilities. It was often rather informal and focuses both on professional development as well as attitudes. No formal policies emphasised attendance at courses from international business schools. Assessment, retention and release were not oriented towards a life-time employment model. Rather, a strict up-or-out system was used to retain desirable senior skill and discharges those who cannot match the organisation's requirements. Leavers were given much assistance to develop their career successfully outside the organisation.

Efficiency-orientation: In contrast to the expertise-orientation, efficiency-oriented firms emphasised the HRM outcomes accuracy and diligence. Consultants were more specialists than generalists when they applied standardised methods to familiar organisational problems. Since knowledge was seen as rather firm-specific, employees calculated inside- and outside career perspectives and found that internal career development was more favourable. Thus, commitment was directed at continuance, not that much affective as in the expertise-orientation. Here, the approach to HRM was characterised by bureaucratic regulation to bring employees to perform according to well-established organisational routines. Formal methods of recruitment such as standardised test were employed. High salaries and bonuses, contractual clauses for training and preventing employees from work for competitors characterised an HRM approach directed more at "binds rather than bonds" (p. 13). Culture emphasised not the consultants' reputation and autonomy, but the professionals' membership in the organisations as their ambassadors. Due to high standardisation, structure was more triangle-like, relying much on the contribution of junior employees. Stable functional teams consisting of juniors and few seniors performed tasks in client organisations. Recruitment and selection was very sophisticated and relies on search bureaus for senior staff and rigorous selection tests for junior staff. Training and supervision were highly standardised and firm-specific. Extensive time and money was spent for these purposes. Assessment, retention and release aimed to retain senior employees whose careers stagnate since seniors with firm-specific skills and knowledge needed to be retained and were not found easily

on the labour market. To achieve this, additional job levels were introduced to be able to promote seniors to whom partnership cannot be offered.

The analysis conducted in an ideal-typical way illustrated that there is no universalistic best way to manage human resources, but that different strategic orientations require different HR choices. HRM was found to be introduced as bundles of practices. In practice, however, most firms employed some mix of practices, even though a trend towards one extreme could be recognised.

Observation 51: Based on an ideal-type model, there is support for a contingency view in a qualitative study.

Hope Hailey (2001) investigated a shift in business strategy from cost reduction and growth by acquisition towards innovation in one company. Four HRM initiatives were launched to support the shift in business strategy, i.e. a new vision and new values, a refined performance management system, the development of new leadership talent, and a restructured HR function. Perceptions by line managers revealed progress in most areas, yet also highlighted the difficulties encountered in actually putting the initiatives into practice. Even considerably more managers indicate that there is a clear set of values and more commitment to them, insufficient follow-up regarding new values after a “sensational launch” (p. 1134) was a concern and doubts about the board’s commitment to the new culture were raised also. Performance management remained an area of concern with only limited improvement and a remaining majority doubtful about motivational effects. Concerns prevailed regarding performance evaluation and development reviews. Training provision remained excellent, yet some managers expressed concern regarding training content and its potential lack in future orientation. New leadership profiles have been incorporated into the career development process, but there is concern by line managers that the practice of hiring talent from the market rather than building it inside the organisation is problematic. The HR function’s role changed and respondents indicated higher satisfaction. Senior management

recognised the importance of HRM in supporting change processes line management is in some doubt whether the necessary HRM processes have been put in place.

Hutchinson et al. (2000) explored in a qualitative case study determinants and effects of HRM within the wider organisational context. Research was carried out at a RAC customer service centre in 1997. Semi-structured interviews were conducted with senior managers, team leaders, customer advisors, and union representatives. The RAC, being the UK's second largest motoring organisation, employed 4000 people serving 6 million members at the time the study was conducted. The RAC faced substantial problems associated with the entry of new competitors. Membership declined steadily, and in comparison with competitors, retention was low. Customers began demanding higher standards at lower costs.

The RAC identified the improvement of customer satisfaction as key to improvement and focused on call-centre operations to improve service quality. A detailed review revealed problems with customer focus (with customers being transferred between too many functional lines), high overhead costs and inflexible working practices. Besides, there was insufficient investment in new technologies, low morale, high turnover and poor training and development. A customer services director was appointed who devised a set of objectives. In 1997, two main call centre activities were customer services to old and potential members and breakdown assistance. The research concentrated on one of two sites and on the customer services function. The external conditions at the site were characterised by low unemployment and the presence of alternative employers exacerbating the turnover problem. Prior to changes, 17 groups across three sites covered a range of services. There was little coordination and communication, each group had different reporting structures, performance standards and terms and conditions of employment. The number of sites was reduced from three to two and all groups reported to the same line structure. Terms and conditions were integrated. Key changes involved delayering from 7 to 4 layers, teamworking and a new team manager role, the new position of customer advisor for front-line staff as a multi-skilled role.

To support the structure, additional functions were set up, i.e. a design and support team for resource planning and forecasting, a training and development team, the new role of customer care & change manager and a team for his/her support to ensure the implementation of changes and a call centre manager with the responsibility for developing and motivating team managers and ensuring the call centre met targets. HR was restructured across the whole organisation with the objective of structuring HR team around specialists in training, compensation and employee relations. The involvement of the union TGWU resulted in only minor changes to the initial proposals.

Teamworking and the new team manager role: Teams of 10-15 with changing composition were set up. The new team manager role required to spend 80% of his/her time with coaching, performance reviews, providing feedback and identifying training needs and replaced the old supervisor role which involved mainly providing cover and answering customer complaints. Team managers are also expected to devise activities interrupting the routine and relieve pressure. Support teams facilitated team managers in their new roles.

Development, performance and rewards: Previously two salary systems existed. After the reorganisation, a new system introduced common performance standards focusing on high performance. The aim was to integrate reward, development and performance and to balance basic and variable pay with a reflection of the market rates. *Customer advisors* received five progression levels based on performance and variable incentives, each level with a different performance target. Qualitative and quantitative criteria account for the assessment. *Team managers* received a considerably higher salary than the old supervisors. A new grading structure was introduced to provide progression opportunities. Reward was based on team performance. For both groups, the new compensation system was accompanied by a new working time arrangement extending the opening hours and by a new IT system allowing available resources to be utilised better to match the call volumes.

Recruitment and selection: Daily recruitment activities were devolved to line managers who were supported and trained by HR staff. In order to acquire a new type of recruit able to empathise with customers, selection became more sophisticated and temporary staff (on which previously was relied much comprising up to 30% extra staff) was reduced to summer only. Instead, long-term contracts with temporary workers able to work variable hours over the year were sought with the aim to have a more highly skilled, reliable and committed work force. The new temporary workers received training and induction.

Training & development: RAC recognised that previous training was poor. After the restructuring, a new customer services training team was set up with the aim to support team managers. Also, it devised new training procedures for recruits, e.g. learning about new products and procedures before finally integrating recruits in a team with more experienced employees. Due to team managers' heavy workloads and the inappropriateness of the initial training plan, difficulties arose resulting in slow adoption. A series of workshops over 12 months helped the team leaders adopting their new roles.

Involvement in quality improvement and communication: Based on RAC's goal to involve employees more, customer advisors' roles were seen as twofold: providing an accurate and friendly service on the one hand and suggesting ways to improve service levels and organisational effectiveness on the other hand. A suggestion scheme was introduced by which every suggestion was rewarded with a ticket for a monthly price draw. "Quality champions" in each team were appointed who should encourage their peers to contribute new ideas and suggestions. Also, team members were encouraged to handle calls immediately instead of transferring them to specialists or the team manager. A customer care team is concerned with gathering information about complaints and seeks to identify their roots.

Performance outcomes: With a relatively stable demand, productivity levels rose by 20-30% in the first 3-4 months after the changes. *Labour turnover* was 27-35% in the three years prior to the changes and fell strongly to 8% in 1997 and 2% in 1998.

Absenteeism improved to 10% in 1997 and 5% in 1998. *Call performance* improved as well with both cost/call and increased service levels. *The customer satisfaction index* in 1997 showed 70.4% satisfied customers in 1997 and 71.4% in 1998, regarded as very good by the RAC in times of restructuring and market changes.

The effect on employees was mixed in 4-5 months after the changes: initially, there was strong skepticism, particularly among older workers, but most recognised the need for change (80% in 1996; fewer agreed that they would be happy about changes). Workers' earnings increased as well as internal promotion opportunities, employees reported more support and variety and communication were felt to have improved. Managers in particular reported higher empowerment and involvement as well as content with the ability to concentrate on people-management skills. In 1998, 70% of employees had participated in the suggestion scheme. The negative aspects mentioned for managers were higher stress and harder work. Similarly, employees also reported higher stress and pressure, particularly due to performance monitoring. The main problems mentioned evolved around the tight script and high targets for sales commissions acting as a disincentive. Nevertheless, RAC-measured mean satisfaction increased from 51% in 1997 to 57% in 1998.

Particularly positive were management-staff relations, job satisfaction, earnings, and sufficient information to do the job. The authors attributed the favourable evaluations to the combined effects of the change in team management roles, training improvements and new involvement procedures. The study illustrated the value of identifying idiosyncratic contingencies. The initial stimulus to adopt HCM was the need to realign business strategy and organisational structure in the face of competition and changes in customer expectations. The study illustrates that it was not enough to redefine the role of employees and team managers and to pay more. Training and attention to implementation were crucial in addition. The development and motivation of new team managers with necessary skills for coaching and training needs identification was critical as well. The introduction of small career steps for employees was functional for recruitment and retention as well as for the necessary skill development. In the process, HRM was developed by the HR function and

delivered by line managers. The changes involved a combination of HRM, work organisation, management structure, IT and operational strategy.

This reinforces the need to consider HRM in context and not in isolation. The study demonstrates the importance of internal fit and of external fit understood both as fit with business strategy and with labour market demands. Evidence for work intensification was found, but intensification came along with relatively high satisfaction and increased responsibility, consistent with Edward's (1998) 'disciplined worker' perspective discussed in Chapter 2.2.2.2.

Truss' (2001) paper is based on one case study of Hewlett Packard which is recognised as both a superior performer over time and a firm applying sophisticated HRM practices. Rather than using the approach generally adopted in surveys, Truss investigated which HRM practices a successful firm has. Data were collected at two points, in 1994, and 1996 by interviews, questionnaires, focus groups and document analyses. Findings were compared with six other companies, all top-performers. The *HP Way*, the organisation's HR philosophy has not been owned by the HR functions, but line management which is seen as central in enacting policies in the areas of career management, performance appraisal, and training. With regard to training, Truss speaks of line management as a "powerful mediator between the individual and the training and development provision of the company." (p. 1136).

On the individual level, morale, satisfaction and commitment were found to be higher at HP than the other six organisations, however, HP employees also reported higher levels of stress and pressures. In terms of financial performance (ROA and profit per employee), HP outperformed the benchmark companies and the FTSE 100 index over several years. Employees' views of organisational effectiveness are higher than elsewhere, apart from perceived management effectiveness. Despite a pronounced training ethos and strong management by objectives systems, the majority of employees sees faults in these areas which reinforces the potential benefit of taking into account employee perceptions.

The external environment became increasingly hostile, resulting in both cost-cutting initiatives and more challenging targets which in turn led to increased pressures on employees and an erosion of rewards. The introduction of formalised systems, informal practices continued to be applied by line managers, e.g. in the area of career planning where informal networking continued to predominate. Quantitative studies relying on HR data from HR departments only, Truss notes, would have resulted in a perception that the organisation had employed advanced HRM to good effect. The limitation acknowledged by Truss is that the study rests on qualitative techniques not easily replicated. Performance needs to be understood and disaggregated on several levels by researchers and informal policy application is central to research:

“We cannot consider how HRM and performance are linked without analysing, in some detail, how policy is translated into practice through the lens of the informal organization.” (p. 1146).

Observation 52: Evidence supports the need to assess the context and business-specific problems and goals.

Observation 53: Segmentation issues need to be considered. Different HR choices for managers and employees can help both employees displaying behaviours needed to solve particular business problems and develop the required competencies and the managers to assist employees taking on their broader role.

Observation 54: Effective HRM requires internally consistent policies and practices.

Observation 55: More sophisticated HRM is associated with both higher satisfaction and responsibility, but also work intensification.

To facilitate an overview of all observations made, a summary of the 55 observations is provided in Appendix A 4.

3.3 Research implications

In this section, an effort is made to group the 55 observations more meaningfully into clusters with different implications for research. Building on this, I establish my own research questions and hypotheses in the next section.

Research Implication 1:

O6, O17, O31, O40, O41 and O43 imply that there is strong evidence for an association of HRM and organisational performance. Even though the predominant cross-sectional designs do not allow for conclusions regarding the direction of causality, the longitudinal results to date support the view that the assumption of HRM causally contributing to performance is a worthy point of departure for further analysis, but one that requires investigation through large-scale and representative survey data with longitudinal research designs.

Research Implication 2:

The dominant research design of past studies (O3, O4, O5, O6 and O7) mainly aims at establishing whether or not respectively how much impact HRM and different HRM designs have on performance. According to Yin (1994), these types of research strategies are indeed valid for examining such kind of questions, whereas questions of “how” and “why” require case studies or experiments (Yin 1994, pp.6). Thus, the implication of these observations is the use of a different research strategy incorporating in-depth case studies.

Research Implication 3:

O11, O12, O13, O27, O29 and O33 illustrate that past research has largely failed to illuminate the ‘black box’ between HRM and organisational performance. They imply that future research therefore needs to address intermediate effects and try to understand the full HRM-performance link since evidence on the linkages is limited, even though individual chain links generally have a positive association with performance. O34 states that these intermediate links and effects are not exclusively behavioural by nature and implies that non-behavioural effects need to be investigated.

Research Implication 4:

What is established with relative certainty is the mediation effect of productivity on financial performance (O30 and O32) whereby subsequent productivity is strongly influenced by past productivity. It is implied that future research should replicate these findings.

Research Implication 5:

O8 and O9 imply that when measuring HRM sophistication and HRM design approaches, the researcher cannot rely on established and generally accepted measures.

Research Implication 6:

When researching the HRM-organisational performance relationship, O10 and O52 imply that future research needs to incorporate idiosyncratic business goals since mere concentration on standard performance indicators may not represent the actual business goals adequately and thereby bias the estimated impact of HRM.

Research Implication 7:

According to O14, traditional business strategy theories would need to be utilised with caution to classify business strategies. Thus, O14, O10 and O52 together indicate that a conceptualisation of both business strategy goals and the corresponding outcome measures needs to be idiosyncratic in order to validly assess the real impact of HRM.

Research Implication 8:

Several observations (O15, O21, O22, O23 and O24) imply that HRM must not be viewed as independent and separated from business context, but that instead a range of contextual variables can both influence the design of HRM and mediate the HRM impact.

Research Implication 9:

Related to the latter point, attention must be paid to the external economic context as implied by O16. Market conditions can influence organisational outcomes in a way that HRM effects cannot be observed. This observation further supports implications by O10 since despite market disruptions affecting standard performance measures, HRM can be beneficial to the achievement of specific business goals. O47 illustrates the value of HRM for firm survival in economic crises, thereby supporting this view.

Research Implication 10:

O18 and O54 imply that mathematical/statistical attempts to record internal fit effects are moderate only, but that the case-based analysis of HRM practices can reveal the benefit of mutually reinforcing practices. The latter approach should therefore be adopted by future research.

Research Implication 11:

O14, O19, O20 and O51 illustrate that there is some support for traditional external fit notions based on business strategy typologies, but that alternative fit propositions differentiating HRM use for business objectives qualitatively or seeing HRM as trigger for successful strategy implementation received good support, however, only in one study each. Acknowledging that business strategy classifications are only moderately successful in explaining different HRM choices and the requirement noted earlier to concentrate more on idiosyncratic business goals, an analysis less pre-determined by classifications of HRM choices appears to be implied. That is, research must ask which HRM choices are made to support certain business objectives.

Research Implication 12:

O44, O45, O46 and O53 strongly imply that the above considerations are to be complemented by what was called segmentation issues earlier. Different groups of organisational members are subject to different HR practices (or qualitative differences in the same HR practices) since different behaviours and competencies might be required from the groups.

Research Implication 13:

O35 and O36 imply that human resource capabilities need to be integrated into future research more strongly.

Research Implication 14:

O7 and O38 imply the need for multiple respondents in studies to validate findings.

Research Implication 15:

O42 implies that future research should be able to replicate the finding that integrated manufacturing is associated with the presence of skill enhancing and job enriching work practices.

Research Implication 16:

O27, O28 and O55 imply that future studies should find generally positive effects on subjective and objective HR outcome indicators, but that despite higher satisfaction and responsibility subjectively experienced strain will accompany the otherwise positive outcomes.

Research Implication 17:

O49 and O50 imply the viability of considerations of organisations' history which can influence the development of human resource capabilities.

Research Implication 18:

O1 could contain two different implications: conducting future research in countries other than Anglo-American to obtain more findings about HRM effects in other national contexts or conducting in-depth research within the context studied so far. Given above considerations of a lack of knowledge regarding the process by which HRM contributes to organisational effectiveness and the need to assess this question by case-study research design, the latter view seems more appropriate to guide research at the moment. O2 implies liberty for the researcher to decide on industry sectors to conduct such studies.

3.4 Research focus

In the preceding section several implications have been derived based on the observations made analysing the research issues in the literature. Unfortunately, not all of them can realistically be incorporated into one doctoral research project. Therefore, priorities have to be set.

The question of whether there is a connection between sophisticated HRM and performance has received strong empirical support; however, the processes by which this association can be explained are still unclear and require investigation (Becker & Gerhart 1996, Becker et al. 1997, Purcell 1999). This thesis, therefore, examines the processes through which HRM contributes to organisational performance. It does so by focusing firstly on the influence of the economic context and secondly the mechanics through which HRM contributes to performance.

Several specific hypotheses are examined ². Organisational performance can be influenced by external economic conditions which can bias the observation of HRM effects in research (O 16). Hypothesis 1 is established to test for this possibility. To investigate the assumed causal link between HRM and performance, it is firstly hypothesised that HRM choices have to be aligned with organisational strategy to be effective (H2a). Rather than using pre-established generic business strategy classifications, RI6 and RI7 imply researching idiosyncratic business goals and strategies. As financial performance might not be a priority of every organisation at every point in time and is therefore an imperfect criterion variable, the strongest contribution of HRM is expected for achieving idiosyncratic business goals. Even though external conditions can bias the measured HRM contribution on standard performance outcomes, HRM can be found to contribute to organisational performance irrespective of external conditions when focusing on idiosyncratic goals (O10, O 47).

² The term hypothesis is not to be understood in a statistical sense implying that with certain tests hypotheses can be assumed valid at pre-defined statistical confidence levels. Rather, it is used here in a more general sense as defined in the Oxford Advanced Learner's Dictionary (1989, p. 612) as an "idea or suggestion that is based on known facts and is used as a basis for reasoning or further investigation."

Secondly, to avoid narrowing the research focus too closely on HRM and its effects, and thereby risk ignoring other relevant factors, the usually implicit assumption that the achievement of operational objectives depends in fact on staff as opposed to other, non-human factors such as IT or physical equipment is also examined (H2b). Thirdly, even though the existence of a complete causal chain has not been demonstrated yet, there is sufficient evidence to expect HRM to influence (through selection, training or other methods) the availability of adequate numbers of qualified and motivated staff (e.g. O27, O35, O36, O55) who contribute to improving organisational performance. Two hypotheses, therefore, test whether advanced HRM techniques influence the availability of staff with the required qualities (H2c) and in the adequate quantities (H2d). All the research hypotheses can be summarised as follows.

H1: The economic environment influences organisational performance.

H2: HRM contributes to organisational performance

H2a: HRM contributes to performance through its alignment with business strategy

H2b: The achievement of operational objectives and the solution of operational problems depend on the availability of staff with the relevant qualities and in the adequate quantities

H2c: The availability of staff with relevant qualities depends on the application of advanced HRM techniques

H2d: The availability of staff in the adequate quantities depends on the application of advanced HRM techniques

3.5 The hotel industry as a setting for research on the HRM-performance question

This section provides contextual background information on HRM in the hotel sector to conclude this chapter. Specific issues relevant to the methodology adopted for the empirical research for this thesis are discussed in Chapter 3.

Before the discussion of *HRM* in the hotel sector, it is appropriate to characterise the sector in a more general way to examine whether possible HRM idiosyncrasies are related to more generic idiosyncrasies. In a general sense, hotels are service organisations that differ from manufacturing organisations in the following ways (Mullins 1998):

1. The consumer is a participant in the process, and not merely on the receiving end of an intermediate process in which a product is manufactured. Consumers' presence requires attention to the atmospheric characteristics of the facility as they influence his or her perceptions and satisfaction. The customer can also actively influence the process of the service operations, e.g. make tea using the facilities provided in the room and thereby reduce the demand for room service.
2. Production and consumption occur simultaneously so that the service itself cannot be stored. The lack of inventory can result in customers waiting
3. Services are perishable. If not consumed, the service is wasted.
4. There is no distribution channels as for manufactured products so that customers and services must come together to be effective.
5. The service activities are people orientated. The personal nature of services emphasises direct interaction of customers and employees, and effective delivery of services is dependent on staff.
6. Measuring performance is difficult. Profitability or number of guests is not necessarily measure of quality of service, and the intangible nature of services and the actual delivery differences make objective monitoring of objective standards difficult. Reasons for customers' presence, particular requirements, personalities and behaviours of both staff and customers results in varying delivery standards and perceptions of service.
7. Lack of ownership. The consumption of services does not result in ownership by the customer.

Though different from manufacturing, many of these characteristics would appear to apply to the majority of businesses, as the service sector constitutes the largest part of the economy in the UK. Not surprisingly, Mullins (1998, p. 21) states that: "Service industries are in need of management in order to operate effectively in the same way as any other industry." This effective operation entails making profits and

maintaining cash flow (Riley 1991), and is not different between industries. Mullins (1998) however notes that the service industries have failed, to an extent, to manage services effectively and according to Riley (op. cit.), such characteristics as well as the hotel-industry specific seasonality and short-term fluctuation of demand create the “immediacy” and a “tendency for the short term to be dominant” (p. 2). However, it must be borne in mind that managers everywhere spend considerable time reacting to “high-pressure disturbance situations” (Mintzberg 1975, p. 84). These arise inevitably in organisations not only because of incompetent managers’ ignorance to situation until crises have reached proportions requiring action, but also due to the inability to anticipate all consequences of actions and decisions (ibid.).

The described partial failure to effectively manage services and the stereotypical short-term orientation in the hotel industry might be associated with the management of people within the industry. HRM in hotels and catering has traditionally been regarded as poor, with employees having to accept, for example, low discretion, low pay, an autocratic management style, unsocial hours of working, and intrinsically unrewarding work. The corresponding employee relations climate has been described as equally poor, with high employee turnover and high absenteeism as characteristic features. The image of the industry, therefore, has been unfavourable, and vacancies in the hotel and catering sector have been more difficult to fill than elsewhere (Price 1994, Lucas 1995).

Turnover in the hotel and catering industry is an ambivalent issue (Hoque 2000, Simons & Hinkin 2001). There is agreement that turnover is high in the industry with figures of 70% annual employee turnover being commonly quoted (Wood 1992, Hoque 2000) comparing with an average of 14% in the UK economy (according to figures from the third Workplace Industrial Relations Survey WIRS3 reported in Hoque 2000). According to Birdir (2002), short tenure is also characteristic of senior managers within the industry. One perspective holds that turnover is a major problem that must be managed and reduced due to its negative effects. It leads to a considerable amount of management time spent on recruitment and disruption results due to sudden departures of staff (Lucas 1995). The second holds an opposite view,

i.e. that turnover is unavoidable and even desirable as it can be used to control headcount according to current business requirements (Hoque 2000, Simons & Hinkin 2001). The main determinants of high turnover are low pay rates and dissatisfaction with poor pay (Lucas 1995). Low management competence in regard to monitor business demand and match labour supply through adequate manpower planning (Johnson 1985, Macauley & Wood 1992) is quoted as explanation for the high labour turnover as well as characteristics relating to workforce demographics (Wood 1992, Hoque 2000).

Low pay is attributed by Lucas (1995) to low autonomy by unit or general managers in respect to pay levels as they have to achieve certain wage costs / sales revenue ratios set by their head offices. Managers therefore have two primary options, i.e. keeping headcount or pay rates low. Furthermore, the low level of skills required for many jobs and the employment of women and part-time employees in conjunction with the associated stereotypical perceptions of such work “undoubtedly serve to keep pay rates at the lower end of the spectrum.” (Lucas 1995, p. 124).

Hinkin & Tracey (2000), based on responses of 40 employees and HR professionals, estimated turnover costs in terms of separation costs, and costs of recruitment, selection, hiring and lost productivity. For a front-desk employee, the cost of individual turnover amounted to ca. 30% of the annual salary. Simons & Hinkin (2001) found in a sample of 98 hotels that, as was expected, large hotels and hotels with higher room rates had lower turnover than smaller and lower-end establishments. Overall, employee turnover was negatively associated with profitability ($r = -.36, p < .01$). Based on regression analyses, the authors found that turnover was four times as costly to hotels with high room rates than for the average hotels (significance at conventional levels).

There is growing consensus that a change towards a more sophisticated approach to HRM in the 1990s in larger, often foreign-owned hotels has taken place, shared even by scholars critical of HRM in the sector (Price 1994, Kelliher & Johnson 1997, Hoque 1999b, 2000, Nickson & Wood 2000).

Despite their overall bleak assessment of HR practice in the industry, Lucas (1995, p. 39), based on analyses of the third Workplace Industrial Relations Survey (WIRS3) found that general and unit managers in hotel and catering “have more formal responsibilities for employee relations than managers across the economy, and spend more time managing employee relations than other managers.” Unlike in other industries, “employee relations is primarily a line management activity which is central to managing in hotels and catering. The manager may or may not be supported by the presence of others, particularly functional specialists at varying levels of seniority in the organization.” (Lucas 1995, p. 38). Contrary to expectations, there is also a higher level of formal qualifications related to HRM among senior managers in the industry. However, these characteristics might be related to the fact that hotel managers have to deal with the continuous need for recruitment and basic skills training rather than being a manifestation of sophistication (Price 1994, Lucas 1995).

Kelliher & Johnson (1997) conducted a follow-up survey 10 years after their initial research (Kelliher & Johnson 1987) that had found unsophisticated personnel practice and a narrow definition of the personnel function primarily concerning itself almost exclusively with the consequences of high labour turnover, recruitment and training. The later study was based on a UK sample of large hotels and also included a subsample of foreign-owned hotels within London. Over the 10 years between the studies, HRM activity was found to have changed as a broader scope of the HRM function developed in addition to the traditional domains of training and selection, particularly in terms of employee welfare and employee relations. Larger hotels and those under foreign ownership in particular have continued to improve. However, the sophistication of HRM practice has improved little. Rather than describing the industry as unique, however, Kelliher & Johnson (1997, p. 330) suggest that “what has been happening in hotels is broadly similar to what has happened elsewhere.” This view would seem consistent with that of general HRM scholars who found that both in the USA and in the UK, there is little evidence of a comprehensive adoption

of advanced HRM within the economy as a whole (e.g. Pfeffer 1996, Wood & de Menezes 1998).

Gilbert & Gurrier (1997) investigated the change of managerial perceptions in the UK hospitality industry regarding the manager's role over the last 15 years. Eight focus groups were interviewed on perceived changes. Management styles were described as shifting from autocratic towards that of a team facilitator, more skilled in dealing with interpersonal relations, and managers perceived an increased emphasis on training and development and devolvement of responsibility to increasingly empowered and multi-skilled front-line staff. Managers' own skill requirements changed from an emphasis on specialist hotel and catering skills towards more general business skills to meet financial targets and save costs.

Buick & Muthu (1997) focused on the training and development practices within large hotels in Scotland. Their study revealed high importance attached to training by managerial respondents and also identified high levels of systematic training needs analysis, use of performance appraisals to inform training design, and monitoring of the effectiveness of training.

Hoque (1999b) compared a sample of manufacturing establishments (314 organisations, 38.5% response rate) and large hotels (230 hotels, 35.2% response rate). Data were collected in 1993 for the manufacturing organisations and 1995 for hotels. In three areas of HRM, i.e. terms and conditions of employment, training and communication and consultation, a range of specific HRM practices were significantly more widely used in hotels than in manufacturing establishments. In three other areas, i.e. job design, quality issues, and pay systems, the results were less unambiguous. The only significant difference in the area of job design concerned the use of teamworking; no significant difference was found in regard to flexible job descriptions, staff involvement in performance targets, and job design to fully utilise skills and abilities. In the area of pay systems, significantly more hotels claimed to use formal regular appraisals, but more manufacturing establishments reported the use of merit pay. The only dimension on which manufacturing establishments

consistently reported higher use of HRM practices was in the area of quality where a devolved responsibility for quality and the use of quality circles or improvement teams was significantly higher among manufacturing establishments.

Contrary to the expectations of a low strategic orientation (Price 1994, Lucas 1995), Hoque (1999b) found that hotels were significantly more likely than manufacturing establishments to have a formal HR strategy. HR strategy presence was measured with five items including the respondents' claim of having a strategy formally endorsed and supported by top management, deliberately integrated with business strategy, the presence of a formal mission statement, the reference of this mission statement to HR issues, and the deliberate integration of practices.

Hoque (1999b, p. 72) interpreted the results cautiously, acknowledging that despite a relatively large sample size, the research "does not provide a comprehensive picture concerning the nature of HRM within the industry." However, even though the picture may not be comprehensive, the evidence does in no way support the stereotypical expectation that the interest in HRM is greater among manufacturing organisations. "If anything, the opposite is true." (Hoque 1999b, p. 74). However, Hoque (op. cit.) warns of an extrapolation of the findings to smaller hotels where poor HR practice may still be prevalent, a view strongly emphasised by Nickson & Wood (2000). With reference to the poor image of the industry and the increasing importance of service quality, Hoque (1999b, p. 74) concludes:

"It seems that, as managers have accepted the importance of service quality, they have also taken on board the need to find new ways of employing their staff. Much of the evidence portraying the hotel industry as backward and unstrategic dates back to the 1980s. Such conventional stereotypes must now be viewed as increasingly dated, at least where larger hotels are concerned."

Using quantitative survey data consistent with the general literature on HRM and performance discussed in Chapter 3.1, Hoque (1999a, 2000) found evidence for the effectiveness of advanced HRM in the large hotels (with 65 or more rooms), supporting universalistic predictions. In addition, those organisations adopting sophisticated HRM in conjunction with a quality-enhancer approach outperformed most other categories on the organisational outcomes dimensions (and the HR

outcomes) with the exception of the HRM adopters whose business strategy could not be classified, thereby providing evidence that a particular approach to HRM and business strategy can be universally relevant within an industry. In other words, in hotels combining an HRM approach with a quality-oriented business strategy, better HR outcomes (e.g. organisational commitment and absenteeism) and better organisational performance were achieved than by other HRM-business strategy combinations (with the exception of the combination of an HRM approach with non-classifiable business strategy). The confidence in the results strengthened by six follow-up interviews conducted by Hoque (2000) confirming that no misinterpretation had occurred by respondents answering questions in the questionnaire survey.

Why should there be evidence for the superiority of an HRM approach combined with a quality-enhancing business strategy in the hotel sector? It is widely acknowledged that in the labour-intensive hotel industry, the prime responsibility for delivering services rests with staff (Riley 1991, Mattson 1994, Kelliher & Johnson 1997, Mullins 1998). As service quality is becoming ever more important (Mattson 1994, Kokko & Moilanen 1997, Buick & Muthu 1997, Mullins 1998), a more sophisticated approach to HRM characterised by devolved decision-making authority, providing employees with the necessary skills motivating them to perform to achieve and monitor high service standards is deemed more adequate (e.g. Mattson 1994, Kelliher & Johnson 1997, Mullins 1998).

As discussed at the beginning of this section, services are delivered in a direct and personal interaction resulting in a service encounter whose outcomes are not easily planned and measured due to the circumstances, varying preferences across customers and varying types of interaction between different personalities in every service encounter. Standardisation through scripting, for example, can therefore only have limited success in monitoring and defining service quality. As person-to-person encounters are difficult to control, there is a strong case for giving employees the required skills, creating an understanding of the service quality required which can then be delivered with autonomy and flexibility to respond to the varying situations

to deliver a particular standard. Kelliher & Johnson (1997, p. 330) argue consequently that the hotel industry should be particularly progressive in regard to HRM practices:

“[I]t could be argued that given the crucial role of staff in determining service quality in many aspects of hotel work, the need to adopt more sophisticated approaches to managing human resources demands a higher priority. Hence, the hotel industry should, logically, be leading a move towards HRM rather than being content to follow.”

Whatever the future direction the debate on HRM in the hotel industry will take, for the purposes of the present discussion there is sufficient evidence to conclude that HRM is both theoretically and empirically relevant within larger hotels. As the industry is highly labour-intensive and increasingly orientated towards higher quality, the potential relevance and contribution of HRM is increasing. From a research perspective, this is to be welcomed as hotels may well serve as examples of service organisations now constituting the largest part of economies in Western countries. A researcher is presented with the basic ingredients needed to conduct meaningful research within the field of HRM, as the organisation's output units, i.e. service encounters, are inextricably linked to employees so that behavioural and performance effects may be studied without being influenced by a vast body of capital used in as is the case in manufacturing industries.

4. Research methodology

This chapter discusses the methodology adopted in the research to elicit empirical evidence about the linkages assumed in the hypotheses. At first, the rationale for the methodology is discussed. It is argued that a qualitative case-study approach recognising the importance of managerial cognition is appropriate for investigating the hypotheses. Four organisations from the Glasgow four-star hotel sector were selected to conduct an empirical study, and managers on three different levels (i.e. general, line and HR managers) were interviewed to generate data using structured interview protocols. A structured approach was chosen to enhance the rigour and reliability of the data generation technique. A high degree of structure also characterises the data analysis strategy discussed at the end of this chapter.

4.1 Rationale for the methodology

In investigating the processes through which HRM contributes to organisational performance, most research has adopted a positivist methodology. Such positivist analytical-nomological research, often referred to as quantitative, usually starts with the establishment of hypotheses which make assumptions about the properties of the 'real world', and continues by subjecting these to empirical tests which can be either supported or refuted. Interpretive or phenomenological research, in contrast – commonly labelled qualitative – does not usually start with precisely specified hypotheses, but the generation of authentic experiences in the field of enquiry about which empirical evidence is sought and focuses on subjective meanings as experienced by relevant social actors (Kromrey 1994). Proponents of qualitative research often aim to be guided by the principle of 'openness', i.e. one should not approach the field of enquiry with pre-conceived ideas as manifested in particular by hypotheses which might be the result of the enquiry for a researcher with this orientation and the beginning of a theory-building activity as exemplified by Glaser & Strauss' (1967) 'grounded theory' approach. Easterby-Smith et al. (1991, p. 27) offer an overview of key features often associated with the positivist and phenomenological paradigms (see Table 4.1).

Table 4.1: Key characteristics of positivist and phenomenological approaches

	Positivist	Phenomenological
Basic beliefs	The world is external and objective Observer is independent Science is value-free	The world is socially constructed and subjective Observer is part of what is observed Science is driven by human interests
Researcher should	Focus on facts Look for causality and fundamental laws Reduce phenomena to simplest elements Formulate hypotheses and test them	Focus on meanings Try to understand what is happening Look at the totality of each situation Develop ideas through induction from data
Preferred methods	Operationalising concepts so that they can be measured Taking large samples	Using multiple methods to establish different views of phenomena Small samples investigated in depth over time

However, this crude equalisation of a structured, positivist orientation and “quantitative research” on the one hand and of interpretive paradigms with “qualitative research” on the other hand is by no means cogent: researchers using an interpretive paradigm can well use quantitative methods and analytical-nomological researchers can well resort to qualitative methods of data generation. Increasingly, the sharp distinction between the two opposite poles is replaced by a research perspective which pragmatically incorporates elements of both poles, thereby adding to a better understanding of the phenomena studied (Easterby-Smith et al. 1991, Lee 1991, Kromrey 1994, Miles & Huberman 1994).

The vast amount of quantitative survey-based empirical investigations have established a body of knowledge about the HRM-organisational performance question, but failed to penetrate deeply beyond the surface of the research phenomena, particularly the question of *how* HRM contributes to performance. This is due to both the absence of an established body of theory explaining the HRM-performance relationship and the subsequent use of theoretically derived, mostly cross-sectional surveys with limited theoretical scope, low response rates and relying mostly on single respondents unlikely to produce valid information on – in regard to their position – less immediate aspects of the HRM-performance relationship. This is

well illustrated, for example, by Huselid's (1995) approach of asking HR managers for an estimate on which proportion of sales was derived from generic market positioning strategies.

According to Yin (1994), case studies rather than more conventional questionnaire surveys dominating the research are appropriate for researching causal phenomena. Consequently, researchers within the area of HRM and performance increasingly regard qualitative case studies as the method of choice for investigations trying to progress research in the area (Becker & Gerhart 1996, Becker et al. 1997, Purcell 1999).

The theoretical positions dominant in the area of HRM and organisational performance are characterised by a widespread lack of a discussion on how decisions about the design and implementation of advanced employment practices are made and by whom, and by an implicit assumption of rationality in the adoption and implementation of such practices (see Chapter 2.2.2.5). The 'managerial cognition' perspective (Porac et al. 1989, 1996, Stubbart 1989, Spender & Eden 1998) has been demonstrated to be useful to inform research within the area of management and has been identified as relevant for research on HRM and performance (see Chapter 2.2.2.5 and Chapter 2.3) as it investigates mental models involved in the implementation of HRM by managerial key decision makers such as top, line and HR managers (Mintzberg 1973, Eden & Ackermann 1998a). As discussed in Chapter 3.5 focusing on HRM in the hotel sector in which my own research was conducted, line managers are of particular importance for the delivery of HRM in the hotel industry. These key decision makers can be expected to deploy HRM policies based on assumptions about HRM policies' potential effects on employees and performance. Studying the perceptions of managers is therefore vital to progress research in the area and this consideration is an important element for the rationale for the methodology in this thesis. Reflecting the emphasis on managerial *perceptions*, the thesis is predominantly qualitative and interpretive in its orientation.

The choice of a qualitative case study orientation does not necessarily imply an unstructured and interpretive research design. In the light of the strong evidence for a significant association between HRM and performance and the useful insights gained by the previous studies, it would be unwise as well as unproductive to disregard the established empirical evidence and start with a blank sheet. Hence, the qualitative method with an interpretive orientation is based on prior evidence and uses this evidence as a point of departure for applying previously unused, but eminently suitable methods. The recognition of the prior evidence is reflected in the establishment of hypotheses and a structured research design discussed in Chapter 4.2. Before progressing to research design issues, however, ontological and epistemological positions have to be clarified further (Mason 1996).

Ontologically, the issues of interest in this study are HRM practices, organisational performance, processes by which HRM could affect performance (i.e. the ‘black box’), and the economic environment (as recommended by RI 8 and 9). The operationalisations of these issues are discussed in the section on the development of interview protocols (Chapter 4.2.3). Epistemological issues refer to the question of what might constitute knowledge about the phenomena to be studied and are different from more specific questions on how to generate the data. The latter questions refer to data generation methods rather than broader questions of what might constitute knowledge (Mason 1996).

Epistemologically, the research incorporates what could – somewhat simplified – be called objective and subjective evidence, i.e. the research refers to both objectively available data such as secondary statistical data, financial firm performance indicators, and subjective data such as HR managers’ accounts of the evolution of HRM policies over time as well as subjective managerial accounts of organisational performance. In fact, apart from HRM data over time where practically there was no choice but to resort to subjective accounts of people who can be assumed most knowledgeable about the issue, all other ontological phenomena have both objective and subjective epistemological “informants”. The reason for this is twofold.

Firstly, as conversations with experts of the chosen industry sector indicated, due to the high degree of competition, I was likely to face a limited degree of cooperation and an unwillingness to share hard objective data due to their inherent sensitivity. This problem was exacerbated by the fact that the sector is locally heavily researched implying that companies already spend a considerable amount of valuable time on research participation. Hence, being unsure of what data I might be able to generate from the different sources, using an approach relying on more than one type of source of knowledge appeared advisable from a practical point of view. Secondly, as explained earlier, the subjective accounts of key participants promise to be the central gateway to valuable knowledge on the contents of the 'black box' between HRM and organisational performance. Hence, these subjective accounts are the primary focus of this thesis which adopts a predominantly interpretive position.

4.2 Research design

4.2.1 Sector and sample

Having decided on a case-study approach, a choice needed to be made on the industry sector(s) and geographical location(s). Companies in relatively close proximity to each other were chosen to achieve a high degree of standardisation of regionally relevant factors which can manifest themselves both in the product market as well as the labour market domain. Standardisation of other contextual factors could be obtained by focusing on one sector only, particularly companies which would compete in highly similar product as well as labour markets. The underlying logic for selecting organisations competing within the same product and labour markets automatically controls for external influences to which all participating organisations would be subjected. In addition – and of particular interest to HRM research – there might be evidence that different HR systems directly compete with each for labour, thus increasing opportunities for the analysis of HRM effectiveness.

However, even when realising all of the above points, there could still be different product ranges and production techniques which would reduce comparability across the cases and a decreased appreciation of the actual processes involved. Hence, an

industry with a well-defined limited product range or single product would be ideal as a field of investigation. As larger organisations are more likely to have HRM policies than small organisations, it was furthermore desirable to choose at least medium-sized organisations which ruled out many smaller professional service firms. The four-star hotel sector in the city of Glasgow was chosen as a field of enquiry which fulfils all of the above criteria: located in the city of Glasgow and thus close proximity, and competitors in both labour and product markets for a well-defined service, i.e. four-star accommodation. Four-star rather than three-star or five star hotels were chosen as there is only one five-star property in the city and four-star hotels are fewer than three-star hotels, making it more likely to be able to cover the majority of organisations of this type within the city.

In addition, the hotel sector has the advantage, from a research point of view, that it is very labour-intensive and thus automated manufacturing strategies or capital intensity are less likely to bias the degree of HRM sophistication or its estimated effect on performance (O 21, 22, 23, 42). As the level of unionisation in the sector is traditionally very low, a further variable that might influence findings (O 24) is eliminated. In addition, the service sector has been less thoroughly researched compared to manufacturing (Hoque 2000, O 2) and despite structural differences to other sectors (e.g. in regard to unionisation and labour turnover), the discussion in Chapter 3.5 concluded that the sector is suitable for conducting research on HRM and performance.

The collection of primary data needed to start with an identification of suitable hotels in Glasgow. Hoque (1999a) chose hotels with 65 or more bedrooms as subjects for her hotel industry study and found that larger hotels were more likely to apply. This was attributed to the fact “that HRM holds a greater degree of relevance within larger establishments.” (ibid., p. 423). In Hoque’s study, the AA UK Hotels guide served as a basis to draw a sample for a survey. Initially, with the assistance of *The Glasgow City Business Shop*, a local business development institution, a search of the Dun & Bradstreet business database was conducted. The Dun & Bradstreet analysis for hotels in Glasgow resulted in ca. 50 hits, most of which are very small hotels and

guest houses with few employees only. As the larger hotels are all subsidiaries of chains, they are not listed as Glasgow businesses in this database. A further search was thus conducted using the search facility at the Scottish Tourist Board website (<http://www.visitscotland.com/>) which listed seven four-star rated hotels in Glasgow in autumn 2000.

All hotels were subsequently contacted for data on number of rooms, number of employees which were provided in most cases by reception staff, in some cases by HR staff. HR managers were contacted again to explore whether data on HRM and performance were available in principle and to investigate whether there would be a general willingness to participate in my research. The number of rooms range from 72 to 300 (mean 183, S.D. 105 rooms). The initial responses were sufficiently positive to support conducting research in this sector, even though it was emphasised that there was a strong concern about confidentiality, in particular regarding any performance-related information. This concern was echoed by senior staff from the Scottish Hotel School which is part of Strathclyde Business School who indicated that access to data will almost certainly be a problem and confidentiality a major concern due to very high competition in the sector within the city. Four out of the seven four-star hotels agreed to participate in the research study and are described in the following.

In the interest of the assured confidentiality and anonymity, the names of the case study hotels have been changed to the randomly chosen pseudonyms Red, Blue, Green and Yellow which bear no resemblance to the colours used in brand logos. For the same reason, no data on the number of rooms or number of employees can be provided. Red and Green are hotels of international hotel groups, Blue represents a well-known national brand, and Yellow is a franchised hotel operation of an established international hotel brand. Blue is near one of the conference venues in the city and Green located in a part of the city described by the GM as a “fashionable suburb”. Red and Yellow are located most centrally within the city. The city centre can be reached by all hotels within 15 minutes by taxi. Specific information is added at later stages where appropriate.

4.2.2 Secondary data

In order to assess the economic context in which the empirical study was conducted and thereby investigating H1, secondary data based on large-scale surveys were referred to gather additional data on workforce characteristics in the hotel industry in comparison to the service sector and the whole economy as well as on specific economic data on business confidence, occupancy rates, and employment issues in the hotel industry. The secondary data are used to corroborate subjective managerial data. The structure and content of the subjective data in regard to the economic context discussed in a later section are based on the secondary data introduced here. Secondary data bases used were the Labour Force Survey (LFS) and the Scottish Chambers Business Survey (SCBS).

Data on workforce characteristics and employment patterns were derived from the which is briefly described below. LFS data were used for developing protocols for interviews with HR and general managers (see Chapter 4.2.3) and referred to for investigating the economic context. The LFS is a survey of households in the UK and carried out since 1979 by a division of the Office of National Statistics (ONS). Apart from the Census of Employment, replaced by the Annual Employment Survey and now by the Annual Business Inquiry, the LFS is the primary source of information on labour market issues (LFS Survey User Guide Vol. 1 1998). The LFS is based on quarterly samples of ca. 60,000 households since 1992. The sampling frame is taken from a Post Office generated list of potential mail recipients receiving less than 25 items of mail per day. Questionnaire items consist of a core of questions included in every survey as well as non-core questions changing on a yearly cycle. Data are gathered primarily through face-to-face interviewing and additional telephone interviews with the agreement of the respondent. Response rates oscillate around 80% so that a high degree of representativeness is implied. The LFS Survey User Guide Vol.1 covering background and methodology is to be consulted for more detailed information.

Data on business confidence, occupancy rates and employment issues in hotels were gathered accessing data from the Scottish Chambers Business Survey (SCBS). The

survey is briefly described below and the analysis is to be found in Chapter 4, specifically dedicated to data analysis issues. The SCBS is the largest regular survey of business opinion and business trends in Scotland and is conducted on a quarterly basis since 1984, when the survey was first established as Scottish Business Survey, before its current name was adopted in 1987. Major expansions of the survey took place in 1990 and 1995. The survey is a collaborative venture between University of Strathclyde's Fraser of Allander Institute and the Scottish Chambers. It comprises the sectors oil and gas services, manufacturing, construction, wholesale and retail distribution and tourism. Tourism results combine SCBS findings with those from parallel surveys from the Highlands and Islands Enterprise (HIE) and the Scottish Tourist Board (STB) which publishes its results quarterly as the Scottish Tourism Monitor. The tourism results cover large hotels, family hotels, self-catering accommodation, B&Bs and visitor attractions. The results from large hotels can be further analysed by spatial, quality and size criteria. The database used is drawn from SCBS, HIE, STB sources to representative of hotels by size, location and facilities. The survey database is updated on a two-yearly cycle.

4.2.3 Development of research tools

This section discusses the development of the research tools used to measure the research phenomena of interest; namely, HRM practices, organisational performance, the processes by which HRM could affect performance (i.e. the 'black box'), and the economic environment. These ontological phenomena were operationalised as more specific research constructs in the hypotheses (specified in parentheses). Research constructs to be measured were advanced HRM techniques [H2a,b,c], business objectives (both on an organisational strategy and operational level) [H2a,b] and their achievement [H2b], the availability of staff in adequate qualities and quantities [H2c,d], and the achievement of objectives in the form of organisational performance [H2a] and departmental performance [H2b]. Research constructs operationalising the economic context [H2] were product market competition, labour market competition, and factors limiting sales.

Within the four cases, three types of respondents were chosen to generate data on the research constructs to gather evidence related to the hypotheses. It was deemed essential to question particular respondents only on issues within their immediate domains to ensure a high validity of responses. Hence, HR managers were chosen to generate data on HRM policies and general managers were selected to provide information on all aspects relating to the economic contexts of their organisations, organisational strategic objectives and their link to HRM and organisational performance. Line managers were selected to generate data on idiosyncratic operational objectives, the role of staff in achieving these objectives, the role of HRM in the process of achieving objectives, and the role of the HR function. In addition to the informants from the four case study organisations, an industry expert from the tourist board was interviewed to provide an independent and unbiased perspective on the economic context.

For all respondents, interviews rather than questionnaires were regarded as the preferred method to obtain detailed and in-depth data on the research hypotheses. As data on HRM procedures were of a very factual nature (i.e. the existence of a particular practice within the organisation) and most questions were closed, a questionnaire format might have been appropriate. However, it was decided to use structured interviews instead, for two reasons. Firstly, given the difficult access situation, the interview as a social situation could be used to reinforce any promises about confidentiality already made. It could also progress the research further by increasing awareness in the interviewees of the purposes of the research and the importance of not losing any participant which would have resulted in possibly insufficient cases to gather meaningful data. Secondly, as the data to be gathered aimed to assess an extensive list of HR practices over time and had to acknowledge the fact that different practices might be applied to certain occupational groups only, any data matrix or questionnaire trying to capture this complexity would by default be too complex and voluminous to inspire the required motivation and commitment to participate in the research. Rather, the opposite effect was to be expected. A questionnaire generating data on HRM was developed, but eventually regarded as

too extensive and complex (i.e. over 60 pages) to be easily completed by the respondents. The interview approach was therefore preferred.

It had been anticipated that GMs have only limited time available. Also, the nature of the issues to be enquired from GMs allowed the application of a closed set of questions with the exception of the strategy and HRM section. Hence, a questionnaire could have been appropriate. However, a decision was made to interview GMs to explain the purposes of the research to them directly (rather than through their HR managers), to increase trust and hence the opportunity of accessing complementary objective performance data. An interview seemed also preferable to gather data on HRM and strategy allowing for better probing and clarifications than a questionnaire would allow. The decision to conduct an interview with GMs was thus not only based on methodological considerations, but also the social component of the interview situation was considered and utilised.

Interviews with line managers were deemed particularly important because it is in the organisational departments where particular business problems are encountered, specific objectives established and where staff are employed to achieve these objectives (see O52). In addition, based on the review of literature on HRM in the hotel sector (Chapter 3.5) line managers were expected to be the key actors also in regard to delivering HRM policies. In other words, the 'black box' between HRM and organisational performance is to be located where staff are employed – which must make the departments of an organisation delivering the service or product the central focus of any research aiming to investigate the 'black box'. Consequently, I aimed for choosing two line managers per organisation. Interviews only were regarded as appropriate data generation method as it was here that the cognitions of managers were of fundamental importance to the research and only interviews would provide the opportunity to probe, clarify and become aware of contextual issues relevant to the respondents.

For the tourist board executive, the objective was to obtain data on the attractiveness of Glasgow as a destination over time, the development of hotel stock within the city

and the labour market. It was regarded as most appropriate to conduct an interview allowing to explore these themes with the respondent in depth and utilising fully the personal knowledge of the respondent whilst having the opportunity to probe and clarify issues discussed. Interview protocols were developed for the interviews with HR, general and line managers which are discussed below.

4.2.3.1 Interviews with HR managers

According to RI 5, there are no established and widely accepted tools for measuring HRM sophistication. Not only is there a variation in terms of number and types of HRM practices included, but also in terms of measurement method. There are four broad categories of measurement method used, i.e. presence/ absence of certain practices, Likert-scaled items to assess the intensity or the extent of application, the percentage of employees to whom a certain HRM practice is applied and other measurements (e.g. the percentage of jobs filled by internal promotion as by Becker & Huselid 1998b or the number of recruiting sources per hire as by Koch & McGrath 1996 – see Appendix A 3).

The preference was to build on and modify an existing instrument rather than adding yet another completely new one. The WERS 98-based paper by Ramsay et al. (2000) providing the most extensive set of HR variables available promised to be a useful point of departure. All of the 24 practices were used apart from TQM which to not be regarded as an HR variable per se. The remaining 23 practices, constructed of usually several questions from the WERS 98 management questionnaire, were either asked directly or given as an option when asking an open question with several response options. For example, Ramsay et al.'s (op. cit.) performance-related pay is given as a response option in the question "Which forms of the following compensation practices have you used in the last five years?".

Table 2 in Chapter 2.2.1 summarises 'advanced' HRM practices used in empirical studies. This list of HRM practices was referred to in order to complement Ramsay et

al.'s (2000) set of HRM practices whenever appropriate. For example, WERS 98 conceives of sophisticated recruitment and selection mainly in terms of techniques, but neglects issues relating to the evaluation of the effectiveness of such techniques. Therefore, the question whether any systematic studies evaluating the validity of recruitment and selection techniques was added referring to Table 2.

To structure the interview protocol, a similar grouping as used in Table 2 was used, allocating certain specific HR practices are allocated to 11 broader HR dimensions, i.e. recruitment and selection, terms and conditions, performance appraisal, training and development, work organisation, employee relations and communication, HR planning, Investors in People, equal employment opportunities (EEO) and diversity management, and family-and employee-friendly policies. These dimensions and the corresponding advanced HR practices are summarised in Table 4.2.

Table 4.2: HRM dimensions and practices used in the research

Recruitment and selection	Terms and conditions	Performance appraisal	Training and development	Work Organisation	Employee Relations and Communication	HR planning	Investors in People	EEO/ Diversity Management	Family- and Employee-friendly Policies
Importance	Importance	Importance	Importance	Importance	Importance	Importance	Importance	Importance	Importance
Main actors	Main actors	Main actors	Main actors	Main actors	Main actors	Main actors	Main actors	Main actors	Main actors
No. recruits 2000	General policy about basic pay rates	Individual appraisals with written feedback	Policy of on- or off-job training for new employees in first year	Degree of task variety	Trade union recognition	Formal career planning activities	Holding IIP	Formal EEO policy	Bullying and harassment procedure
Main categories recruited	Type of compensation practices	Use of appraisals (financial/ non-financial)	Policy of on- or off-job training for employees after first year	Degree of discretion	Negotiation or consultation with non-unionised form of employee representation	Explicit promotion criteria	Main benefit of IIP	Policy targets for at least one type of discrimination	Men entitled to parental leave
Sources of recruitment	Additional benefits and bonuses	Explicit and objective criteria	Focus of off-job training	Use of teams	Consultative employee-management committee	Preference for internal candidates		Measures in effectiveness of EEO policy	Sickness is special form of paid leave
Specific selection criteria from job analysis	Explicit policy of job security	Team-based appraisals	Objective multi-skilling for more jobs	Teams appointing own leaders	Programmes of upward communication				Assistance to employees whose dismissal could not be avoided
Interviews	Single status reinforcing idea of equality	Training for appraisers	Training based on systematic training needs analysis	Work allocation in teams democratic or leader-determined	Programmes for downward communication				Policies helping balance work and family responsibilities
Psychometric tests	Harmonised terms and conditions	Other information	Systematic evaluation of training programmes	Formal job analyses determining work requirements	Other information				
Other assessment procedures	Monthly or annualised hours to promote flexibility			Job rotation explicit element of work organisation					
Problem-solving as selection criteria	System of tip sharing			Employees encouraged to participate in problem-solving groups					
Systematic evaluation of selection									
Realistic job previews									
Formal induction programme									

Before asking specific questions about the practices listed in Table 4.3, the interviews with HR managers were also used to gather general organisational and employment related data on the organisations. In addition, questions were asked about the organisation of employment management in the hotel (see Table 4.3 for a summary and Appendix B 1 for the detailed question format).

Table 4.3: General information on hotel properties

Ownership status	Ownership nationality
Change of ownership in last 5 years	Since when at this address
Controlling head office	No. of employees 2000
Proportion of full time, part-time and casual	Change of average no. of employees (5 years)
Foreign employees in 2000	Change in no. of foreign employees (5 years)
Non-white employees in 2000	Change in no. of non-white employees (5 years)
< 20 years old employees in 2000	Change in no. of < 20 years old employees (5 years)
No. of employees being full-time students in 2000	Change in no. of ft-student employees (5 years)
No. of staff being union members	Classification of staff
Group most crucial for organisational success?	Group least important for organisational success?
General information on employment management	
How many employees in HR dept.	Employment status of HR employees
When HR dept. set up in current form	Joining date HR manager
Professional or academic qualifications of HR mgr.	Relationship between HR dept. and corporate headquarters
Importance of HRM in hotel over last 5 years	

In order to account for the possibility that HRM practices are applied only to selected employee groups (O44, O45, O46, O53), a categorisation of employees was needed. It would have been straightforward to use a generic classification of major occupational groups as, for example, was used for obvious purposes in WERS 98 and as can be easily applied using the LFS variable “socmajm: major occupation group (main job)”. These standard occupational classifications on a single-digit level are: managers and administrators, professional occupations, associated professional and technical occupations, clerical and secretarial occupations, personal and protective occupations, sales occupations, plant and machine operatives, and other occupations.

However, as a hotel-specific study was to be conducted, a more specifically defined and contextually appropriate categorisation was preferable. Thus, an analysis of Labour Force Survey data (see Chapter 3.2.3.1) was conducted using *Quanvert* software, an *SPSS* derivative, to analyse four quarters of the LFS data with a more

precise focus on a three-digit level using the variable “socmain: occupation (main job)”. The analysis resulted in between 54 and 57 specific occupations for the four quarters. These were then grouped with the above classification as a general framework which needed to be adapted to be meaningful to the hotel industry where, e.g. plant and machine operatives are largely irrelevant. The most comprehensive and parsimonious classification included the following categories: managers, clerical/ secretarial employees, chefs/ cooks, waiting staff, bar staff, porters/ catering assistants/ security staff, cleaners/ housekeepers, and kitchen porters.

Kitchen porters were to be listed separately as my conversations with industry experts from the Scottish Hotel School which is part of Strathclyde Business School revealed as this is a particularly undesirable entry-point position which cannot be regarded as part of the porters/ catering assistants/ security staff category. The LFS analysis conducted using four quarters from September 1999 to August 2000 indicated that the seven categories accounted for 93% to 96% of the 54 to 57 occupations.

4.2.3.2 Interviews with general managers

The interview protocol developed for the interviews with general managers is contained in Appendix B2. In order to appreciate the relative importance of different operations which might have a different degree of importance in different establishments affecting the responses, the changes and relative share of different revenue streams needed to be assessed.

A second section needed to focus on competition in different hotel operations (i.e. the product market) and the labour market. Questions on labour market competition used the employee categories derived from the Labour Force Survey (see Chapter 4.2.2). A final element providing a potential triangulation point with unpublished data from the Scottish Chambers Business Survey (see Chapter 4.2.2) was introduced and a question formulated which major factors have limited sales over the past years.

To investigate links between strategy, HRM and performance on an organisational level, the third section focused on the following issues: major business targets, HRM choices made to support these goals and influence of HRM practices on the achievement of these goals, whether or not they had been deliberately designed for this purpose. Following RI 7 and RI 11, no traditional business strategy model was applied. It was deemed consistent with the objective to obtain information about idiosyncratic strategies to ask open questions instead.

A final section on organisational performance needed had to take into account the following considerations. Firstly, according to RI 6, idiosyncratic business goals rather than standard performance indicators alone should be used in future research. Secondly, evidence from large-scale databases such as WIRS3 and WERS 98 revealed that subjective performance accounts asking respondents to compare their own organisations' performance against their industry result in an upward bias, i.e. most organisations claim to perform better than the average (see Table 3.1 in Chapter 3). Thirdly, early warnings from industry experts from the Scottish Hotel School which is part of Strathclyde Business School echoed in interviews with HR managers that it was likely that objective performance data would not be released.

Performance measures, meaningful within the hotel industry and providing an opportunity for respondents to indicate additional organisation-specific performance objectives, were developed. The first three performance indicators were taken from WERS 98, i.e. financial performance, labour productivity, and service quality. Three industry specific indicators were added, i.e. occupancy rate, room rate discounting (average room rate), and yield (revenue per available room). Other objectives could be added by the respondents.

Given the difficulties associated with respondents comparing their organisations, as revealed through WIRS3 and WERS 98 data, it was decided that the WERS 98 practice of using a five-point scale was kept, but that the respondents should indicate the degree to which they achieved *their own* targets. This question format naturally reduces opportunities for direct comparisons, but is adequate when assessing

idiosyncratic performance patterns. An additional section was included focusing on main markets and customer types.

4.2.3.3 Interviews with line managers

Interviews with line managers (see Appendix B 3 for the interview protocol) were deemed particularly important as it is in the organisational departments where particular business problems are encountered, specific objectives established and where staff are employed to achieve these objectives. Therefore, in order to explore the contents of the 'black box' between HRM and organisational performance, the departments of an organisation delivering the service or product were focused on in particular.

Consistent with the overall approach of basing the research on hypotheses, a structured interview was designed around mostly open questions, knowing that in its empirical application it would (and needed to) be a semi-structured interview allowing room for the respondent to expand on issues regarded as relevant by him or her and to explain why certain actions were taken or what effect particular stimuli had. The structure was designed to provide sufficient verbal stimuli on specific issues to achieve a balance of efficient use of interviewing time with a clear focus and a degree of openness for the respondent to voice his or her subjective views, impressions, actions and assessments.

In the first section, some general questions were asked. This was followed by a section on major objectives and problems over the past years, the dependency of solutions on staff input as opposed to non-labour factors, the extent of staff contribution to goal achievement and problem solution, the way employees contributed to this process and the adequacy of staff numbers for this process. A third section focused on the role of employment policies. Respondents were presented with a list of the dimensions used in the HRM interviews and specific examples of related employment policies. They needed to indicate the degree to which these policies contributed to the availability of staff with the relevant qualities and in the

right quantities. Respondents were also asked which other practices not available in the hotel might have been beneficial. A final section focused on the role of the HR function in the hotel and its contribution to delivering employment practices.

4.3 Procedure

4.3.1 Phases

The protocol for the interviews with HR managers was piloted with an HR manager at a four-star hotel in a town within the greater Glasgow area on 7 February 2001. The questions were well understood by the respondent who answered concisely throughout. Interview duration was ca. 50 min. The pilot interviewee did not make any suggestions as to the content, phrasing or structure of the questionnaire. Also the generated classification was regarded as adequate. The second interviewee indicated that the list needed to be extended and sales staff added as these do not fit into any other category and are different from clerical and secretarial staff: “No they are not clerical, they’re targeted and bonused on sales.” (GM Blue). The suggestion was welcomed and the category added.

Based on the interview protocol, interviews were conducted with the HR managers of hotels Green, Yellow, and Red. At Blue, the GM provided the information due to an HR manager vacancy at the time. Table 4.4 summarises the interview dates and duration of interviews on HRM practices.

Table 4.4: HRM interview data

Hotel	Date	Interview duration
Green	27 February 2001	Ca. 2 hrs.
Yellow	19 February 2001	Ca. 1:50 hrs.
Red	1 and 2 March 2001	Ca. 2 hrs.
Blue	3 April 2001	Ca. 2 hrs.

Interviewees were given a set of supporting notes (see Appendix B1) to assist an understanding of the questions with answer options provided, illustrating that I was interested in when a particular HR practice was introduced, when possibly abandoned and to gather any additional question-specific information. It was explained to the interviewees that there was no requirement for themselves to fill in

any questionnaires, but that the objective of the supporting notes were simply to provide a visual support tool facilitating data collection. At the beginning of the interview, the participants were asked whether they would agree with me tape recording the interview which would help me to analyse the data later. No concerns were raised. Initially, one hour of the managers' time was requested for based on the time required for the pilot interview, but it was emphasised that I would be very interested in obtaining as detailed information as possible and be grateful, if more time could be spent gathering such information. In all cases the time was exceeded by far by the respondents, some of which, however, is to be attributed to introductions, further explanations of the research objectives, closure and discussion of further involvement in the research.

The questions for the interviews with general managers (GMs) could not be piloted in a meaningful manner due to an unsurprising lack of general managers willing to participate in a pilot without apparent benefits. As there was no opportunity to meaningfully pilot the questions, the first GM contact was utilised to gather feedback on the questions which was GM Blue who indicated that in terms of revenue streams it is established practice to distinguish only between food & beverage, accommodation and other revenue, but that the more detailed distinction is adequate for the question on competition. This suggestion was subsequently incorporated and the format changed.

A hypothetical interview was simulated and it was estimated that it should take about 30 minutes to complete, assuming concise answers to the questions. Interview appointments were made with GMs and it was indicated that the interview could be completed within 30 min., if so required, but that I would be grateful, if more time could be spent for eliciting in-depth information. The strategy proved largely successful as Table 4.5 with interview dates and durations shows. All GMs displayed interest in the research and were willing to spend by far more time than requested for. To facilitate the interview process for the respondents, these were given a supporting answer sheet and it was explained that there was no need to fill in any information, but rather that the answer sheet was designed to facilitate the interview

process by providing a visual aid. Interview dates and durations are summarised in Table 4.5

Table 4.5: General managers interview data

Hotel	Date	Interview duration
Green	7 June 2001	Ca. 1:30 hrs.
Yellow	No interview	
Red	31 May 2001	Ca. 1:40 hrs.
Blue	30 May 2001	Ca. 1 hr.

No interview could be arranged with the GM at Yellow. The GM was unavailable for an interview due to arrangements to start another position elsewhere. No interview could be arranged either with the previous deputy GM who left for an overseas assignment. The HR manager interviewed earlier informed me that organisational performance data cannot be provided due to confidentiality concerns. GM Green had indicated that performance data would be made available, but several attempts to obtain these data by sending reminder letters as well as making several phone calls failed. GM Blue had been very interested in the research and indicated a personal willingness to share the data, however, was constrained by group policy not allowing the release of such information to researchers. The only organisation which kindly provided objective organisational performance data covering the years 1996 to 2000 was Red. Hence, initial concerns about sharing objective organisational performance data were substantiated.

Finally, interviews with line managers were conducted. Reflecting the importance of line managers for the research in the present thesis, two line managers were interviewed in each organisation, apart from hotel Yellow where only one line manager was available.

As the interview was largely based on open questions and it could not be simulated how the respondents would answer the questions, an estimation regarding the timing was difficult. However, I estimated that an interview with a focused interviewee should not exceed one hour. As the previous stages revealed, it was likely to be able to interview the responding managers for longer than initially agreed. They were informed about my estimate of about one hour and invited to dedicate more time to

the interview, if they felt able to do so. Following the same logic as for the other phases, the interviewees were given supporting notes to facilitate the interviewing process, again without the need for the respondents filling in any data. As before, all interviews were tape recorded with the respondents permission. Table 4.6 summarises interview dates and durations.

Table 4.6: Line managers interview data

Hotel	Date	Interview duration	LM position
Green	26 July 2001	Ca. 40 min.	Revenue manager
	15 August 2001	Ca. 1 hr.	Operations manager
Yellow	28 August 2001	Ca. 35 min.	Marketing & sales director
	No second interview		
Red	10 August 2001	Ca. 30 min.	Sales manager
	12 August 2001	Ca. 1:30 hrs.	Lounge, meetings & events manager
Blue	26 July 2001	Ca. 1:20 hrs	Food & beverage manager
	10 August 2001	Ca. 1:10 hrs	Revenue manager

4.3.2 Ethical considerations

According to the Encyclopaedia Britannica (<http://www.britannica.com/>), ethics is

“the discipline concerned with what is morally good and bad, right and wrong. The term is also applied to any system or theory of moral values or principles. “

Clear, unambiguous solutions cannot be offered in terms of what is ethically acceptable as the issues concerned are by nature somewhat vague and imprecise (Mason 1996). However, prescriptive guidelines relating to conducting social research have emerged in different disciplines of social science so that there are textbooks (e.g., Sekaran 2000) with guidelines for ethical conduct in research as well as recommendations by professional associations such as the British Psychological Society and the British Sociological Association (available on their websites www.bps.org.uk and www.britsoc.org.uk respectively). Although similar in outlook, the guidelines from the British Sociological Association can be regarded as more relevant as the research, despite utilising managerial cognition, studies social and economic phenomena (see ontological issues discussed) than psychological ones. The BSA standards on ethics deserve therefore closer investigation. The guidelines are divided into four sections:

1. Relationship with research participants
 - a) participants' well-being and atmosphere of trust
 - b) informed consent
 - c) awareness of possible consequences of research
 - d) minimise effects of intrusion into subjects' private lives
2. Covert research
3. Anonymity, privacy and confidentiality
 - a) respect for the anonymity and privacy of participants
 - b) confidentiality and anonymity of identities
 - c) honouring guarantees of confidentiality
 - d) anonymity and confidentiality for organisations and collectives
4. Avoiding behaviours detrimental to the perception of the discipline.

Ad 1.: Stakeholders involved in my research were the hotels, or – more precisely – the general managers, line managers and HR managers interviewed. With one exception (Blue), access was gained to the organisations via gatekeepers, the HR managers. As a general principle, it had been my intention to gain the “informed consent” of the participants and not to do anything which might be contrary to their legitimate interests. Starting with the first contact, the research participants were informed of the purposes of the research and the relevance of each step was explained. Furthermore, I informed the participants in good faith about the estimated times required for the interviews and firmly believe that the times given would have been sufficient, if time had been a major concern. The research participants agreed voluntarily to spend more time and I am very grateful for this. No questions of a private or intrusive nature which might cause discomfort were asked, as all questions referred to external phenomena, even though, as mentioned before, subjective views were particularly important for the LM interviews.

Ad 2.: Not applicable as the research objectives and methods were clearly outlined.

Ad 3.: Confidentiality, it became apparent, was a major concern voiced by participants and deserves to be respected. During the introductory conversations as well as each phase of the interviews, confidentiality was assured as was anonymisation of data upon completion, manifested in changing the hotels' names to the pseudonyms Green, Yellow, Red and Blue. No personal names were used in the research, thereby ensuring anonymity for individual respondents. Confidentiality was ensured by keeping the data locked in a filing cabinet whenever they were not used for analysis and not allowing others to access them. During interviews with HR and general managers, the option of a moratorium preventing consultation, loan, and photocopying of the submitted thesis for a period of two years which can be further extended for another three years was offered (University of Strathclyde Regulation 20.1.28), particularly to inspire enough trust to be able to access objective performance data. Even though no such data were released (with the exception of Red), the offer was repeated in February 2002 as some data related to location might make an identification possible, albeit with difficulty. The purpose of tape recording, i.e. that it would facilitate later analysis, was explained to all respondents, and all agreed to have their interviews recorded.

Ad 4.: Although the research does not claim to be sociological in nature and although I do not see myself as a sociologist, my understanding of the BSA's recommendation is that research should not undermine the integrity of social and organisational research in general. By adhering to the standards discussed above, I am convinced that the research was conducted in an ethically appropriate manner always respectful to the participants. No concerns about my conduct were raised or complaints made by the participants.

4.4 Data analysis strategy

To facilitate an understanding of how the amount of generated (primarily verbal) data could be condensed into more focused and specific data which could be related more meaningfully to the hypotheses, this section provides a description of the data analysis strategy.

All interviews were transcribed from tape recordings and additional notes taken during the interview were referred to when a straightforward transcription was impeded by lack of clarity of the recording. This was an issue in several instances where the interviews were conducted in hotel lounges with a degree of background noise which had at times negatively influenced the tape recording quality. In these cases, ambiguous phrases were played over several times, additional field notes consulted to verify a final transcription version, and in some instances a third person consulted and asked to listen to an unclear passage. HRM interview transcriptions were then subjected to a reduction of unwanted or irrelevant data such as repetitions and the key points presented in tabular format to be found in Appendix D 1.

The elements of the structured and closed-ended elements of the GM interviews were treated much the same way as the HRM interview data, and the interview transcriptions were used more for verification purposes of information noted during the interview. Again, the results are presented in tabular format with relevant comments or quotations added and are contained in Appendix D 2.

A different analytical strategy, however, was required for the semi-structured section with open questions on strategy and HRM as it was here where subjective accounts with probes and explanations were relevant, rendering a simple tabular format inadequate. As the section was relatively small (compared with the interviews with line managers) and centred around only few concepts, i.e. HRM, organisational goals and HRM contributions to goal achievement, a decision was made not to code the documents, but to create causal maps from the interview transcripts directly.

Cognitive and causal maps are graphic or diagrammatic representations of individuals' cognitive structures or real-world systems (e.g., Eden & Ackermann 1998a). In the latter case Laukkanen (1998, p. 169) suggests the term 'influence diagrams'. CM is used in different research contexts with different underpinning philosophies. In their 'user's guide' on CM, Ackermann et al. (1990, p. 2) note that "[t]here is no definitive map of an account." Models of accounts of problems may vary between users of CM due to their different individual interpretations. Therefore: "Mapping in this sense is an inexact science." (ibid.). Ackermann et al. (1990) and Eden & Ackermann (1998a) recommend to maintain a sense of "ownership" by the interviewee through retaining the natural language used rather than rephrasing and Eden & Ackermann (1998a, p. 285) even encourage the active participation of the interviewee in the mapping process by sharing and building the map with her or him.

This type of consultancy-related research orientation with a close cooperation of researcher and interviewee advocated the benefits of "JOURNEY making and the development of new insights" and appears to be in the tradition of 'action research' (e.g., Kromrey 1994). This understanding of CM holds that maps are to be constructed together with the interviewee starting with an open mind and avoiding too tight an agenda as in structured interviews. Tape recordings from which maps could be built are to be avoided as tape recordings are said to lead to interviewer laziness, resulting in missing subtle points and missing links (Eden & Ackermann 1998a, b). However, others disagree with this approach. Laukkanen (1998, p. 173), for example, states that "[f]rom a processing viewpoint, the initial form of the data is not very critical." and regards interviewer notes or tape transcriptions as appropriate, a view shared by Weick & Bougon (1986). Brown (1992, p. 298) distinguishes her own research having to rely on a "one-shot data collection" which no consultant would willingly choose with the consultancy-oriented research as exemplified by the Eden school outlined above. "Our purpose was collection of information, as uncritically as possible. Whatever 'clients' wanted to say to us was acceptable. What they said did not have to be logical or even rational but it did have to be sincere." (ibid.).

The approach involving the respondent and relying on subsequent visits to revise maps tends “to encourage revisions of maps in the direction of rationality. This is probably excellent if consultancy in managing change is taking place, but disastrous if attitudes, values and perceptions of problems are the data sought.” (ibid.). Brown (1992) reminds us that the purpose of the research informs the approach to CM taken and raises the question of rationalisation of maps which might not be appropriate in any research setting.

The present study focuses on the elicitation of knowledge on processes as seen by the relevant actors and not on constructive consultancy, implying the appropriateness of a technique preventing rationalisation and focusing on the respondents’ impressions irrespective of their logic or consistency. Due to respondents’ time constraints and difficulties to negotiate access it also appeared more conducive to apply a traditional interviewing method and tape record the interviews with the respondents’ permission for later CM from transcriptions, rather than using a technique unfamiliar to the interviewees. In addition, even Eden & Ackermann (1998a, p. 293) acknowledge that almost every researcher trying to apply CM during interviewing “has found the technique very demanding and interviews more difficult.”, so that researchers unfamiliar with the technique may feel unable to apply guidelines for CM as explicated in Eden & Ackermann (1998a) and Ackermann et al.’s (1990) user’s guide whilst capturing an accurate record.

The conventions used for CM for the interviews with general managers (GMs) are identical with the ones used for the interviews with line managers (LMs) and discussed below. A summary report contained in Appendix D 2 was generated from the relevant interview section. This contains a verbal explanation of most of the concepts and their linkages illustrated on the CM, however is not exhaustive as the purpose of the summary reports was to provide a short, i.e. only several pages summary with relevant quotations and not an extremely detailed verbal descriptions. The themes were intended to become apparent consulting either CM or summary reports – or, ideally, both.

The LM interview transcriptions were subjected to a more detailed analysis due to their centrality to the research and furthermore because of the many more concepts and questions involved than in the GM interviews. The verbal data were then coded. Coding (also called indexing) refers to a process whereby parts of text are assigned labels, called nodes, codes or indexing categories. The purpose of the process is to facilitate organisation and retrieval of the coded text sections (Miles & Huberman 1994, Mason 1996). There are three different ways of creating codes (Miles & Huberman 1994, pp. 58). The first consists in deriving codes from conceptual frameworks or hypotheses and using those pre-established codes for analysis. The second involves creating codes during the coding process, maintaining analytical openness and a context-sensitive orientation for a more inductive research orientation. The final method uses a context-independent scheme pointing to domains in which more specific nodes can be developed inductively.

To ensure consistency with the adopted logic involving hypotheses and structured interviews, the subsequent data analysis involved coding of documents based on pre-established nodes to which other nodes emerging from the material could be added, accounting for issues not initially anticipated and utilising the potential richness of data generated with semi-structured and open questions. Naturally, the coding nodes were derived from hypotheses and their operationalisations in the questionnaire. A list of nodes can be found in Appendix C.

Nodes can either be treated as “variables” or as “unfinished resources” (Mason 1996, p. 115). The former approach focuses on exploring relationships between such nodes and involves inferences about causations. The latter approach does not conceive of nodes as “end products” as does the former, but prepares the data for a variety of further uses, e.g. facilitating a better overview of the data set, in-depth analyses of the content of nodes or a starting point to ask further questions paving the way into a deeper penetration of the data (ibid.). As an analysis of managerial cognition was to be a central feature of the research creating an opening for light in the walls of the ‘black box’ of HRM and performance and as causal mapping (CM) was to be the next and crucial analytical step, the *unfinished resource logic* was adopted. Thus, the

nodes were utilised to provide a raw categorisation of the data and to facilitate continuous reference to the transcribed interview texts from which the causal maps were constructed. A *variable logic* would have prevented building the causal maps with the detail finally achieved as it was much more informative to map the precise content of a node from the interview transcripts than create a variable with the same label eliminating the details and connecting it to the other variables on the map.

The interviews were coded using *QSR NVivo, Version 1.1.127*, a qualitative data analysis software. The software's capacity to produce coding reports summarising all text elements coded as associated with a particular node was utilised and the so generated reports transferred into spreadsheet format using *MS Excel 2000*. These data matrices containing both paraphrases and original quotations were referred to as basis for CM and often served as a basis to consult the original documents to clarify the context in which a particular sentence or phrase occurred and hence to verify a certain meaning that was assumed to rely on the out-of-context phrase within the data matrices. As CM "is a way of eliciting meaning and promotes our understanding of how an individual makes sense of a situation" (Jenkins 1998, p. 241) and as the "idiosyncratic ways in which each of the research subjects views their world" (Eden & Ackermann 1998b, p. 194) are to be represented by CM, no coding would be required at all. An overly strong concern of slicing the data set into manageable chunks by continuously improving the precision of the nodes would be counterproductive and lead away from an idiosyncratic understanding of the individual's world. However, as the general research logic was based on hypotheses and a research question, an adequate balance was established by adopting the *unfinished resource logic* which allowed a better understanding of the original documents by viewing them systematically from various angles linked to the research objectives.

Just as there is no single precise map of an account (Ackermann et al. 1990), there is no one way of drawing cognitive maps, albeit useful guidelines are provided by Ackermann et al. (op. cit.) and Eden & Ackermann (1998a). Consequently, the computer software *Decision Explorer* whose version 3.1.5 was used for CM in this

thesis allows for a variety of concepts as well as link styles to be defined to suit the requirements of individual researchers. The conventions adopted in this thesis are briefly elaborated before progressing the discussion by analysing empirical evidence for the hypotheses. Retaining the ownership of the individual respondent, for links to be drawn there needed to be evidence for the respondents making such links themselves. Thus, they represent the respondents' cognition rather than my own interpretation. Concepts used are paraphrases of respondents' answers derived from text slices contained in the large data matrices in *MS Excel* format and verified consulting the original documents or, if the node itself was deemed descriptive enough, the node label was used. Simple arrows indicate that one event led to another or was followed by another, arrows with a positive sign indicate a positive causation between two concepts, i.e. more of the one concept leads to more of the other concept, and a negative sign depicts a negative causation, i.e. more of the one concept leads to less of the second concept. An arrow with an I denotes an inverse relation, i.e. less of the one concept leads to more of the other concept. Dashed arrows indicate minor effects with little emphasis by the respondent. Simple lines between concepts are definitions, i.e. concept A linked with simple lines to concepts B, C, and D indicates that A is defined by B, C, and D. A dashed arrow with a C denotes conflict between two concepts.

4.5 Ensuring quality of research design and data analysis

For the research to have the potential to make a contribution, the methodology by which the results are obtained must be reliable and valid (Kromrey 1994). Reliability refers to research instruments and methods which yield consistent results irrespective of time (i.e., measurement at different points in time yields the same results, consistency of the variable value assumed), irrespective of the researcher applying the methods and instruments (i.e., the research results do not vary across researchers using the same method), and irrespective of the instruments themselves (i.e., different instruments such as questionnaire surveys or interviews yield the same results). In other words, reliability is concerned with the possibility to replicate a study with similar results. The second criterion is that of validity, i.e. the construct

intended to be measured is in fact measured. Thirdly, the research is representative, if there is congruence between the elements in the sample and a theoretically defined population of elements.

Usually, these criteria are referred to when discussing the reliability and validity of psychometric tests or quantitative survey. Such tests or instruments whose statistical properties can be measured, studied and compared with similar ones claiming to measure the same constructs can therefore be subjected to a thorough and critical examination. There is ongoing debate on the nature and applicability of such criteria for qualitative research with some researchers even questioning whether goodness criteria can be applied at all (see Miles & Huberman (1994)). However, Miles & Huberman (op. cit.) suggest that the criteria do and should apply because research findings can have concrete implications for people's lives, people do have views of what happened in situations and researchers rendering accounts of these can do so well or badly. Mason (1996) also suggests that qualitative research should be judged on the criteria reliability and validity, acknowledging that the areas somewhat overlap and are not easily tested and demonstrated. In regard to validity, Mason (op. cit.) suggests a differentiation between validity of instruments used to generate data and validity of interpretation.

Due to the novelty of the research, no established measures for performance or HRM could be used. The development of a measure of HRM sophistication and of organisational performance drew strongly on the WERS 98 survey. This approach thus adapted an existing measure to the requirements of the study and thus built on both the approach and findings of earlier work. The subjective performance questions referred to categories used in WERS 98, but extended the list beyond those used in WERS 98 and changed the question format to the achievement of idiosyncratic standards rather than a comparison against the industry standard.

Due to financial constraints in conducting doctoral research as well as considerable time limitations on respondents, there was only one opportunity per respondent to gather the required data. Piloting the questions with adequate respondents was only

possible for the HRM interviews where an HR manager kindly provided assistance. Different instruments applied by different researchers over various points in time could realistically not been employed and would certainly not have been welcome by the respondents. Thus, a relatively structured approach with questions derived from the hypotheses was conducted to enhance standardisation and thus limit the scope for researcher subjectivity. Within the so defined structure, the respondents had the freedom to express their views and go beyond the immediate questions. I was cautious to avoid leading questions or other behaviours suggesting the desirability of particular responses in favour for or against certain concepts. As respondents of different levels and positions were chosen to elicit information most closely related to their immediate realm, the error introduced by “single respondents answering quick questions” (Purcell 1999, p. 28) could be eliminated. In this research, HR managers were asked about HRM policy, general managers about organisational strategy, performance and the role of HRM at the organisational level, and line managers were asked about the contribution of HRM for their departments and for their idiosyncratic objectives. This approach ensures validity by asking particular questions to the most relevant informants. The adoption of a structured approach ensured consistency of method across respondents and thereby promoting rigour. Being aware of difficulties in replicating research based on a limited number of respondents, this rigorous approach is more likely to result in potential replicability of case studies as advocated by Yin (1994). Replicability is to be understood in this context not as an expectation that applying the same method elsewhere would lead to similar results, but as an expectation that repeated application of the methodology to the same sample would result in highly similar results (ibid.).

Variations may occur due to the degree of openness allowed for by the instruments used, particular the semi-structured section in the interview with general managers and the interviews with line managers. However, this was deemed necessary as the epistemological position which incorporated to a large degree (by nature subjective) managerial cognition required enough room for such cognition to be expressed rather than myself imposing too tight a structure on the respondents preventing them to share their cognitions. In other words, validity would have been impaired, had too

tight a structure been adopted resulting in limited opportunities for respondents to share their subjective views. The relatively structured framework adopted helped to contribute to reliability and validity by reducing the potential for researcher bias. Overall, rooting the questions in prior research helped ask questions yielding information from respondents which were accurate and relevant to the issues studied, an important element in judging the validity of a study (Mason 1996).

On an interpretive level, the adoption of a coding process based on the open resource logic attempted to continue this compromise between structure and openness also in the data analysis phase. Should another researcher attempt to analyse the raw data collected, similar results would be expected, albeit the causal maps may look different and the concepts may be differently named. However, the hypotheses-oriented strategy should result in similar findings. Using a second or third coder would have helped verify these arguments; however, this was unrealistic given the resources available for doctoral research. Different coding systems, predominantly with pre-defined codes related to the hypotheses were investigated (see Appendix C) and one system finally adopted. When constructing the causal maps, in accordance with the open resource logic of coding, the original documents were continually referred to in order to ensure preservation of meaning given by the respondents. This constituted an attempt to ensure validity through preserving the meanings of the interview responses. The numerical domain analyses and tabular presentation of findings in regard to direction of influences between concepts further increased potential replicability of the data analysis and reduced subjective bias of data interpretation.

Finally, the representativeness of the study is to be addressed briefly. Large hotels such as those selected for this study are not representative for the hotel industry as a whole. The discussion of HRM in the hotel sector (see Chapter 3.5) revealed that a distinction between large and small hotels is essential, and Nickson & Wood (2000) in particular are adamant that it would be entirely inappropriate to claim representativeness for “the hotel industry” based on a sample of large, high-quality hotels. Consisting of four hotels established for at least five years in the city, the

sample is likely to be representative for the four-star hotel sector in Glasgow as the remaining large hotels will have experienced similar market opportunities and labour market conditions. It is also likely to be representative for large, high-quality hotels located within larger UK cities as three of the hotels are of national or international chains, and the remaining one represents an established brand as a franchise. It is to be acknowledged explicitly, however, that the representativeness of the sample cannot be determined with certainty. Table 4.7 concludes this chapter by providing a summary of the methodological considerations discussed above.

Table 4.7 Summary of methodological issues

Ontological issues	Epistemological issues	Method	Data analysis
HRM practices	HR managers' accounts of HR practices	Structured interviews with HR managers	Tabular presentation
Organisational performance	Objective company performance data	Access to company performance data	One case only – data presented in the text
	Subjective managerial accounts of performance data	(Semi-) structured interviews with GM	Tabular presentation
		Semi-structured interviews with LM	See LM interviews on processes
Processes by which HRM could affect performance	Objective data on theoretically assumed intervening variables	Access to company HR data	Very limited data available
	Subjective managerial accounts on processes involved	(Semi-) structured interviews with GM	Tabular presentation, causal maps, summary reports
		Semi-structured interviews with LM	Development of coding structure, coding, data matrices, causal maps, summary reports
Economic context			
Labour market context: workforce and employment characteristics in chosen industry sector; degree of competition for labour	Objective data on workforce and employment characteristics	Secondary data analysis of Labour Force Survey (LFS) data	Statistical data analysis
	Subjective managerial accounts of organisational workforce characteristics and degree of competition	(Semi-) structured interviews with GM	Tabular presentation, causal maps, summary reports
		Semi-structured interviews with LM	See LM interviews on processes
Product market context: characteristics of product market and business confidence trends	Objective data on product market	Secondary data analysis of Scottish Chambers Business Survey data (SCBS)	Statistical data analysis
	Subjective managerial accounts on degree of competition	(Semi-) structured interviews with GM	Tabular
		Semi-structured interviews with LM	See LM interviews on processes

5. Data analysis

Based on the data analysis strategy discussed in Chapter 4, the present chapter analyses the primary data generated from interviews with HR, line and general managers and the secondary data from the Scottish Chambers Business Survey and the Labour Force Survey. The data are presented and interpreted in respect of the evidence for and against the research hypotheses derived in Chapter 3. As explained in Chapter 4, the interviews were tape recorded with the respondents' permission and subsequently transcribed. Data from HR managers were reduced to key elements relating to the development of HRM within a hotel and are contained in Appendix D 1. These organisational-level data from HR managers are important for the evaluation of the hypotheses as they help clarify the importance attached to HRM in a particular organisation, report on the range of organisational HR policies which the actual users of HRM in order to manage staff, i.e. line managers, can refer to and help clarify the division of responsibilities within different HRM policy areas.

Organisational-level performance data were generated from interviews with general managers which were subsequently transcribed (see Appendix D 2). These data are important to evaluate the role of the economic context (H1) and enable a better understanding of the situation of the organisation which can be expected to influence the departmental objectives which are an essential point of reference for investigating the contribution of HRM on an operational level. The chapter starts with a presentation of organisational-level data on HRM sophistication and performance before progressing to an analysis of the two hypotheses. The chapter concludes that organisational performance is influenced by the economic context and that HRM contributes to performance on a departmental level.

According to the HR managers, HRM – once regarded as a “hassle” (HR manager Red) has been increasingly regarded as important in all hotels. Reasons for this development are seen in increased labour market competition, a general change in attitude towards employment in the industry and legal changes and a higher amount of recognition by hotel managers.

“I think it has an increasingly important role. It has always been given a certain amount of importance. It’s been recognised I would say for the full five years, the importance of HR. Lately it has become more apparent and proactive in approach to initiatives. It’s been more recognised I think by line managers and general managers the impact that a successful HR department can have on the operation.” (HR manager Green)

“I would say probably that it didn’t take much importance ... Now obviously I’ve got different angles. I think they [managers, M.E.] realised that it has an impact on a lot more things than they realised before.” (HR manager Yellow)

“So the focus is a lot more on HR and they appreciate more how it affects the team and how it is an important resource. And it does make a contribution whereas beforehand I think it was just seen as a hassle.” (HR manager Red)

“Critical. Absolutely critical, there is no question about it. (...) You know, they [employees, M.E.] are parts of the product that we sell, it’s as simple as that. We rely on people, we are about people delivering the service and the standards we want to and all of that starts with HR, there is no question about that, it all starts there.” (GM Blue)

This increasing importance manifested itself in two ways, firstly a higher amount of resources spent on HR and secondly an increasing sophistication in terms of actual HRM practices. All hotels have now two full-time personnel in their local HR departments and an increasing level of support on a number of matters from an increased number of regional HR managers and corporate HR, particularly in regard to training and development, but also legal advice and HR planning. Out of the ten HR areas investigated, six are regarded by the respondents as important or increasingly important.

Recruitment and selection is regarded universally as important, and labour market competition and its associated recruitment difficulties are mentioned in this context by respondents.

“I think it’s becoming increasingly important to get it right and we’re becoming more aware of the techniques involved in recruitment and selection rather than just hiring people and that would be what we’re looking for.” (HR manager Green)

“I think it is important and maybe people are starting to realise that more when they start to look at the labour turnover.” (HR manager Red)

Recruitment activities are not surprisingly highest for those employee categories with highest turnover which tend to be low paid and physically hard jobs (kitchen, waiting, bar, housekeeping). Selection interviewing is the method of choice for all positions, and more valid behavioural and structured techniques are and have been

used for managerial positions whilst less structured approaches have been prevalent for lower grade positions in all hotels. It is usual practice in all hotels to have candidates screened by HR staff first whereas the functional managers make the decision to hire. Blue mentioned the importance of corporate HR in regard to recruitment policies. Selection sophistication improved in most hotels over the past years with the introduction of psychometric testing for managerial positions (Blue, Red, Green) which is extended to all staff in hotel Blue using a simple PC-based testing method. The validity of selection approaches has not yet been subjected to systematic analyses, but two hotels (Yellow, Blue) indicated interest and activity in the area. Realistic job previews have been used by all hotels, but have been given increased emphasis in recent years. Likewise, formal induction programmes have been established in all hotels. Other practices used for recruitment were work trials for chefs and cooks (Red, Yellow), assessing behaviours of managers exposed to job-related scenarios (Red) and presentations for internal candidates to assess their motivation (Blue).

Terms and conditions were not an area of high importance and there has been little change. In three hotels (Green, Red, Blue) head office was described as having the main influence over terms and conditions. Pay benchmarking was reported by three hotels (Green, Yellow, Red). Sick-pay is established practice, but its cost implications by absenteeism were highlighted by one respondent (Blue). The intention of job security was reported by two hotels (Green, Red) which also try to offer alternative employment in the hotel in case a position has to be made redundant. Single status has largely been achieved in all hotels with few privileges for managers prevailing, and terms and conditions are largely harmonised. Flexibility-promoting annualised or monthly hours are considered by two hotels (Blue, Yellow).

In contrast, **performance appraisal** was seen as important or increasingly important, by all respondents, and all hotels use individual appraisals for non-financial purposes (i.e. appraisal is not related to pay), evaluating performance against an established set of criteria. The main influence in regard to performance appraisal is exercised by

head office for two hotels (Green, Red), the general and HR manager jointly (Blue), and the HR manager alone (Yellow). There has been a move towards stronger appraiser training already established at Green with two hotels having introduced compulsory training for appraisers in recent years (Yellow, Red). In addition, Red reported a move towards higher standardisation across the company regarding the delivery of appraisal, and Yellow reported the use of a 360° feedback for senior managers.

The area of **training and development** has also been regarded as very important or increasingly important by all respondents. This policy area is jointly influenced by all levels from head office to the line managers in three hotels (Green, Blue, Red) and by managers in hotel Yellow. The increased importance is reflected in the increased amount of resources and headcount for training from the corporate offices. First-year training is mostly on-job, later training off-job. Concerns were raised about cost implications due to turnover (Red). There has been interest in multi-skilling training programmes by all hotels, however, two hotels failed with this approach due to concerns for individual ownership by staff (Blue, Red), and one suspended a programme which had attracted employees' interest due to commitment to other training initiatives (Green). Appraisals are the primary tool in identifying training needs. Mystery guest audits (Blue) and customer feedback surveys (Red) are increasingly used to influence the content of training. Systematic training evaluations are now used by all hotels with intensified efforts in this respect by two hotels (Blue, Yellow).

Work organisation has not been an area of importance. Influence in this area is exercised by different actors in the four hotels. There has been a trend towards higher standardisation due to enhancing brand profiles (Blue, Red, Yellow), but there has been discretion for employees in regard to achieve the specified end results, illustrated by the following quotation: "How the maid cleans up the room is up to her, but the end result isn't." (GM Blue). Teams are not a feature of hotels as yet, and the experimentation of teamwork in one hotel has been abandoned due to employees' concern for ownership which had also prevented a greater use of multi-skilling

(Blue). Apart from the kitchen, job-rotation is limited for the same reasons. Formal job analyses have not been used in most hotels (apart from Blue). Participation in problem-solving groups has been encouraged widely.

Employee relations and communication was regarded as highly important by all respondents. At Blue and Red, general managers have been described as main actors in this policy area, whereas Green described the area influenced by all levels and Yellow reported a joint influence by HR and senior managers. No negotiations have been conducted with either trade unions or other forms of employee representation. However, consultative employee-management committees have been established in all hotels and the two hotels which had suspended them temporarily due to a lack of constructive orientation have reintroduced them with an enhanced purpose and profile (Yellow, Blue). Programmes for upward and downward communication have been in place in all hotels and have been enhanced by the use of attitude surveys by two hotels in recent years which are now in place in all organisations investigated.

HR planning was regarded as increasingly important by all respondents over recent years. At Blue, the responsibility for HR planning is shared between the general manager, the deputy general manager, and the HR manager. At Green, head office provides a major input, but all levels are involved. At Red, HR planning is carried out by actors on a property level, and Yellow reported franchise-wide HR in charge of the policy area. Career planning has increasingly been used in recent years and group-wide recruitment links established by two hotels (Green, Red). All hotels reported a preference for internal candidates when filling vacancies and one hotel highlighted an increased focus on this practice since 1998 which has been very successful with 50% of heads of departments having been promoted from within (Blue).

IIP is held by all hotels and had been initially regarded as tool to attract staff. However, with the increasing qualification of organisations for IIP this function has become less relevant and now IIP is seen as an award whose loss would create problems rather than its achievement yield benefits.

Due to the naturally less ethnically diverse nature of the local labour market **EEO and diversity management** issues were seen as less relevant, except by one hotel which reported increased training and awareness in this area (Green). At Blue, the policy area is particularly a corporate domain, at Green and Red it is property-level HR managers with the major influence (sharing the responsibility with line managers at Green). No particular targets for discrimination are in place in any hotel in the sample, yet two hotels have introduced ethnic monitoring of application. It was felt that there is no discrimination in the industry, and ongoing recruitment problems would seem to confirm the acute dysfunctionality of a discriminatory practice.

The area of **family- and employee-friendly policies** has become increasingly important. At Blue, the general manager was described as exercising the main influence in the area, at Green the policy area was described as a corporate philosophy to be implemented by line managers. All hotels indicated that there is high flexibility in terms of hours of work offered to staff and a willingness to adjust working times so that family commitments can be fulfilled. According to two responses, this contrasted starkly with the dominant approach up to several years ago when such flexibility was not offered and the organisations determined the work arrangements entirely or would not employ a candidate to other conditions.

“The philosophy is very much that we need to be gone are the days where you’re expected to work 60 hours a week and be happy to have the job. We have to be much more balanced in the approach and people’s personal commitments. It has all to do with a more flexible approach inasmuch as for example I would say 3, 4, 5 years ago, if the employee couldn’t work the hours then they didn’t work for us. Not successful at interview stage. Whereas I think now, we are much more flexible in terms of childcare, for example, OK, you have a child to care for, what hours can you work for us, and maybe work the job around the hours that can be work. That’s got a lot to do with being flexible, the labour market and securing the best candidates, but it’s also a recognition that people have family commitment ... and usually those supersede work commitments.” (HR manager Green)

“The acknowledgement that you know we owned our employees lock stock and barrel that they have immense pressures and families outside of work and personally in this hotel we try and be very very sympathetic to that. We try and fit around childcare arrangements, we try and be flexible with our working hours. We try and be flexible with the amount of days we allow people to work. We’re far less rigid in saying you must do 40 hours a week over five days, I mean that just doesn’t ... we’re almost at a point now where we will say to an employee you tell us what you can do and what’s going to fit around your home and family life. Huge ... that’s probably the single-biggest change in attitude in this industry since I’ve joined in and it’s happened in the last couple of years because this industry has woken up and said you know, we have to acknowledge that our employees do have lives outside of these hotels and it’s not acceptable that they work 60, 70 hours a week.” (GM Blue)

The role of a tight labour market and an increased awareness of employees of their rights has been mentioned and it is only consequent to use higher flexibility and friendlier management styles to attract candidates who potentially have more opportunities finding employment than previously. One respondent mentioned that this thinking now also applies to managers who previously were expected to spend much time on the property (Blue). Men have been entitled to parental leave in recent years. Sickness pay has been in place in all hotels. The reasons for a change in HRM were attributed by respondents to legal changes (Red), increased labour market competition (Green, Blue), growth of the company (Red) and an increased awareness of line managers of HRM (Yellow). Most hotels have come to regard staff turnover as a problematic issue and have introduced targets to reduce turnover.

“There’s no records. But certainly it’s one of the targets that I’m going to set the managers for this year in their objectives, to reduce the turnover in their departments.” (HR manager Yellow)

“But there is a lot more focus at it from an HR point of view on labour turnover and the costs.” (HR manager Red)

“We never have enough staff. We’re always recruiting, even in downtimes where there is no recruitment, there is still recruitment, because, unfortunately, again, labour turnover is an issue in this industry. (...) Labour turnover is also a key issue for us; setting targets for both, producing league tables for sickness and absence which we’ve never previously done it it’s one of the biggest costs to our business, setting league tables for labour turnover which again we’ve never previously done to try and influence to explain this is a major cost to the business that we operate.” (GM Blue).

Table 5.1 summarises the subjective performance data generated from interviews with the general managers which are discussed in the following.

Table 5.1: Sample hotel performance

Year	Hotel	Financial performance	Labour productivity	Service quality	Occupancy rate	Average room rate	Yield	Other
2001	Red		No target	2	3	2	2	
	Green	3	3	5	5	5	5	*2
	Blue							**4
2000	Red						(3)	
	Green	4	3	3	5	5	5	*3
	Blue	3	3	5	3	4	4	**4
1999	Red							
	Green	5	2	3	5	5	5	*3
	Blue	5	5	3	5	5	5	**2
1998	Red							
	Green							
	Blue	3	3	4	4	3	3	
1997	Red							
	Green							
	Blue	2	2	3	2	1	1	
1996	Red							
	Green							
	Blue	2	2	3	2	2	2	

- 1: Significantly worse than expected
- 2: Worse than expected
- 3: Target achieved
- 4: Better than expected
- 5: Significantly better than expected

* Food and beverage results

** Mystery guest audits (the respondent did not indicate the degree to which the results met the expectations – a numerical value was assigned by myself based on a comparison with the mean for the company)

Green provided only subjective data for 1999 to 2001 as there was a lack of information on prior performance available to the GM who had started the assignment in 1999. GM Red did not provide subjective performance data prior to 2001 (with one exception) due to a limited knowledge on target achievement as he was only appointed several weeks before the interview, and in addition, did not regard the criteria as irrelevant, but not necessarily as targets. In summary, both subjective and objective performance data are very incomplete and do not allow for detailed cross-sectional or longitudinal analyses.

Mystery guest audits at Blue reveal greatly improved service levels, both absolutely in percent as well as relatively in its group-wide rank position (from 76.68% in 1999 which is below the average for the group and rank 28 to rank 5 and 86.4% in 2000 –

incomplete data for 2001 indicated 92% service levels). The staff satisfaction survey 2000 revealed overall good satisfaction with staff cooperation, management and training, but a majority of 52% disagreed with the statement that pay and benefits reflect the work they do which contrasts strongly with the positive feedback on the other items.

Overall, the performance pattern at Blue is that of sub-optimal performance between 1996 and 1998, better or significantly better performance than expected in 1999 and better performance than before 1999, but worse than 1999, yet still on target or better than expected in 2000. Service levels as measured externally improved continually. In 1998 and 1999 the hotel won two company awards, reflecting improvement in standards. Average room rate has grown 39.6% from 1996 to 2001 (at the time of interview).

At Green, occupancy rate, average room rate and yield were significantly above target expectations from 1999 to 2001, service levels improved towards significantly above expectations. Labour productivity improved towards reaching expectations in 2001, yet financial performance suffered and fell from being significantly above target in 1999 to being on target in 2001. Food and beverage accounts for 50% of revenue (which is considerably higher than in the other hotels). This is due to a high emphasis on banquets and receptions. The revenue in the segment fell due to fewer guests at wedding receptions which have continually constituted an important market segment for Green. Average room rate has grown by 14% from 1999 to 2001. There is a clear trend towards a higher importance attached to HRM according to the respondents, an enhanced level of resources spent on HRM both on a property level as well as on a corporate level, and a higher degree of HRM sophistication in several areas, whereas it is not possible to compare the hotels in that respect.

This overall trend to an enhanced HRM profile is accompanied at Blue by enhanced performance over a five-year period with a peak in 1999 and at Green by consistently high performance in the hotel-specific performance indicators, an improvement in productivity of previously sub-optimal performance to expectations,

and significantly improved service levels, however, decreased financial performance. Due to the refurbishment and its associated bias of data at Red, data from 1999 could not be taken into account. However, objective performance data from 1996 to 1998 show an increased occupancy rate from 72.54% to 73.89%, a growth in average room rate by 7.4% to £53.44, and rooms yield (occupancy rate*average room rate) by 9.4% to £39.49. Average room rate grew by 25.6% from 1996 to 2000 (here the full data can be used as the rate itself is unlikely to be influenced greatly by the closure of certain sections). Occupancy rates have been as targetted and so has yield until 2000 (but not in 2001). Thus, the full potential for rate growth has not been utilised.

5.1 Evidence relating to Hypothesis 1

H1: The economic environment influences organisational performance

The economic environment comprises influences from both product and labour markets. The discussion of product and labour market influences begins in each subsection with an investigation of the context by referring to secondary data primarily from the Scottish Chambers Business Survey (SCBS) and also responses from an industry expert, the marketing director and director of the convention bureau of the Greater Glasgow and Clyde Valley Tourist Board. These secondary data are then contrasted with the empirical findings from the interviews with general managers at three of the hotels.

Product market

The interview with the marketing director and director of the convention bureau provided useful data for an overview of the local hotel market. As described in Chapter 4, the attractiveness of Glasgow as a destination, the development of Glasgow hotels and labour market issues were discussed. According to the tourist board executive, Glasgow is a “young destination”. “It’s really been going about 14 years in the open market.” In 1988, the city has been in “dire trouble” which led the

city council to appoint an agency to analyse problems and make recommendations. These included to clean up buildings and market change among the local population and the establishment of a marketing agency for the city, the Greater Glasgow and Clyde Valley Tourist Board. A 100% grant to sandblast buildings was offered by the city and taken up by property owners.

“And actually what happened almost within a year, Glasgow changed from being a very dark and grimy city to something that was a lot cleaner and behind the dirt from the industrial revolution that became really golden red sandstone Victorian buildings that people really haven’t seen before.”

A bid was made for the award *European City of Culture*, which was awarded in 1990: “Glasgow won it and it was a major plank in the platform of repositioning of Glasgow in the UK and international market.” Now, Glasgow operates successfully in the short-breaks and national and international convention markets. Glasgow is the third most popular short-break destination in UK after London and Edinburgh and internationally has achieved rank 25 worldwide in 2000 as conference destination (ICCA 2001, figures based on number of meetings held) after holding rank 37 in 1999 and about 40 in 1998.

The primary market is North America, followed by the important markets Ireland and Northern Ireland, Nordic countries, Germany, France and Spain. Within these, there is a concentration on medial association meetings.

“The markets Glasgow operates in are the short breaks market and conferences. We operate in those two principle markets, because they are the largest markets and the richest markets, they’re the fastest growing markets and we segment them down into various sectors. On the conference side segment are the international organisations, and primarily we are interested in medical and academic meetings.”

According to the marketing director, Glasgow was and is well-positioned for this due to the high amount of academic research in medical sciences and number of research hospitals. The markets in which Glasgow operates are “destination-specific”, meaning that Glasgow competes with other *cities* worldwide for leisure and business tourism, emphasising the importance of a local rather than a national tourist board. Customers do not buy Scotland or the UK in the primary markets: “There is no purchase pattern on that basis.” And thus, “Glasgow is in a global beauty contest” for which the city is well-equipped according to the respondent:

“There are plenty of reasons why Glasgow is a good destination for business tourism: it’s accessible, it’s got a good hotel stock, 5,500 bedrooms within 2 miles of the [conference venue, M.E.] it has got 10,500 bedrooms overall, there is an international airport within 12 miles from the city, the city is very compact, very safe, has a purpose-built conference centre that’s integrated with a hotel with 31 meeting rooms, a capacity for 3,000 people in one room, exhibition space for 20,000 square metres, a hall that can take 10,000 people, all under one roof. That’s unique in the UK, that gives us strong competitive edge.”

Over the last two years, 2000 hotel rooms have been added, and a further 1000 are due to be created in 2002. Over the past years, the hotel stock in Glasgow improved strongly. Since 1995, the lack of three-star hotels has been addressed and is now well-served, the four-star market is developing well, yet there is a lack of five-star accommodation in the city: “That weakens our position sometimes when we’re competing for international medical associations.”

The differential in rate between the new destination Glasgow and the established destination Edinburgh has narrowed substantially over the past years (from £15 to £2.50). According to the tourist board marketing director, hotel stock has been improved through new hotels and refurbishment and demand for Glasgow has been good: “And that’s largely driven by demand for Glasgow. And the fact that the hotels are really reengineered their average rates and their tariffs.”

The following quotes from the tourist board marketing director summarise well the overall development in Glasgow:

“It has been an absolute success. You only have to go into the hotels: most hotels are either new or completely refurbished. The smell of new paint in Glasgow is overpowering in our hotels. “

“I think the biggest achievement of the hotels in Glasgow, in the hotel market, has been its expansion, its regeneration, its reinvestment.”

Survey results from the Scottish Chambers Business Survey (SCBS) were used to obtain additional data on competition and other market issues. Unpublished quarterly figures with higher precision than those published (as later data are added) were processed with *SPSS 10.0* for both Scotland and Glasgow and yearly averages were calculated. Referring to an additional database listing with postcodes of the establishments, only the ones clearly within the boundaries of the city were selected

as Glaswegian hotels, whereas the published figures are broader in a geographical definition of Glasgow, including the greater Glasgow and the Clyde valley areas. This procedure resulted in a relatively small number of cases in the Glasgow sample (between 3 and 13), however, due to the limited number of hotels in the city, the smaller sample sizes can be regarded as representative of the Glasgow hotel population.

Several business indicators were used to investigate the economic environment. Business optimism compared to the last quarter and same quarter in the previous year, capacity used (i.e. occupancy rate), the total demand compared to the same quarter of the previous year, the trend in turnover and costs as well as the average room rate. Most figures represent a net of respondents indicating that they are more or less optimistic, i.e. a figure of 10% indicates that compared to the reference period, on total 10% are *more* optimistic. Other figures are plain percentages such as capacity used, whether recruited in last quarter, difficulties recruiting suitable employees, percentage increasing salaries, and average increase in salaries. Figures 5.1.1 and 5.1.2 illustrate the major business indicators for Scotland and Glasgow. The corresponding data tables are to be found in Appendix E.

Figure 5.1.1: Business indicators Glasgow

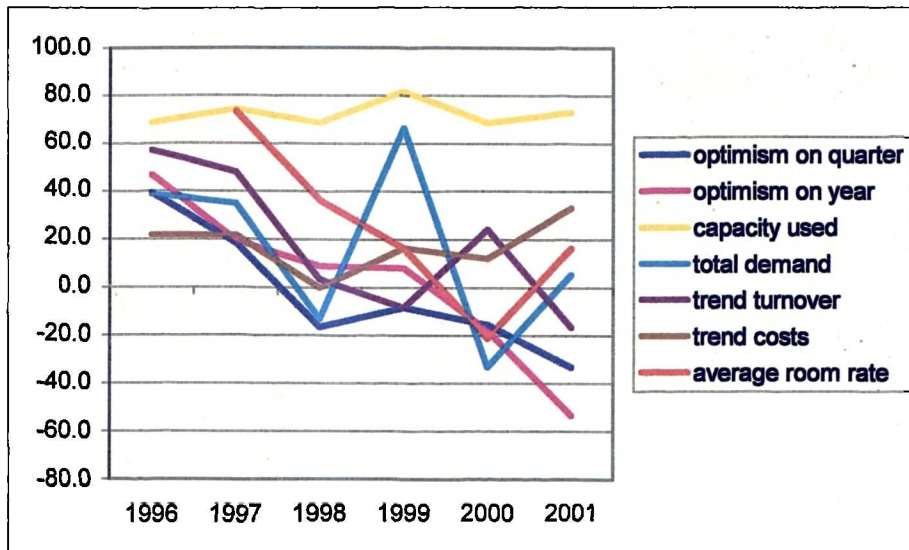
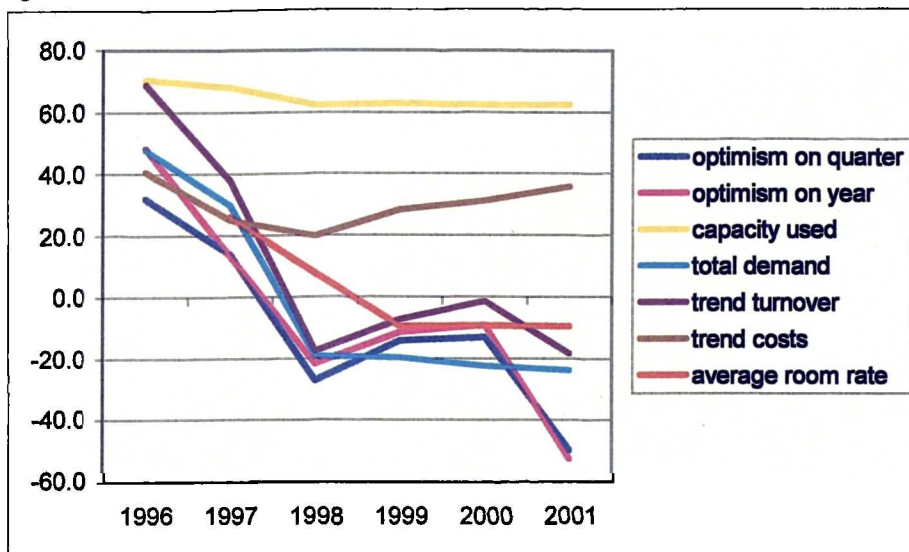


Figure 5.1.2: Business indicators Scotland



Occupancy rate in Glasgow oscillated between 68.9% and 81.8% which was higher than the Scottish figures where the average occupancy rate ranged between 62.3% and 70.5%. Whereas the Scottish figures show a slight decrease to around 63% in 1998 and remained static onwards, Glasgow reached a peak in 1999 which is paralleled by a peak in the trend in total demand in Glasgow, but not in Scotland. All trend indicators apart from cost fell in the period investigated for Scotland. In Glasgow, the trends indicate a more turbulent market, with falling demand to 1998

before reaching a peak in 1999, then falling again to 2000 from which there is a new recovery. Average room rate trends fell in both markets, however, the falling trend has been more pronounced in Glasgow, where there was a recovery after 2000 which was unparalleled in Scotland. Despite positive developments in 1999 by higher demand and occupancy rate and higher average room rate from 2000, optimism on previous quarter and on same quarter previous year fell continually which can be explained for 2001 with the food and mouth crisis having had a negative impact on tourism in Scotland, however, not for 1999. It can be assumed that the prospect of an increased amount of room supply (as emphasised by the tourist board marketing director) as well as bars and restaurants opening (as emphasised by GM Blue and Red) might have negatively influenced respondents' optimism.

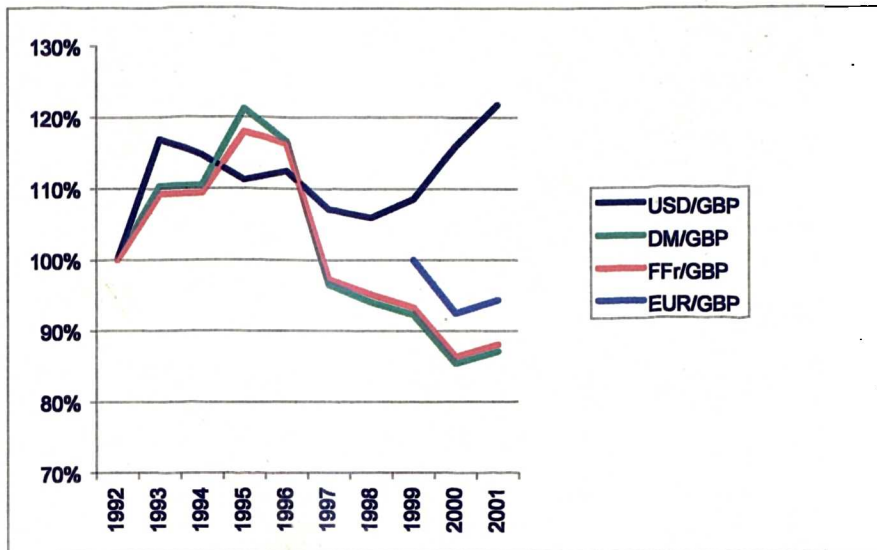
Table 5.2 illustrates a difference in perception of factors limiting sales in the Scottish and Glasgow hotel market. Adding all data per factor and calculating averages, lack of demand is the most important factor limiting sales in Scotland, followed by poor business trade and price competition. In Glasgow, price competition has the highest average score, followed by lack of demand and insufficient space. From a less significant fifth rank, price competition rose to a major factor in 1997, 1999, and 2000 in Glasgow which can be explained by the enormous expansion of the hotel sector within the city particularly during this period. Exchange rate is a factor frequently quoted, albeit considerably less important than other factors. As the main markets for Glasgow are North America and Europe, exchange rates ratios against the British pound were calculated using data from www.OANDA.com for the major economies in northern America and Europe, i.e. US, Germany and France. Yearly averaged data (see Appendix E 1) were calculated with Excel 2000 from daily figures, and the change in the values of these currencies against the pound is illustrated in Figure 5.2 with 1992 as base year. After introduction of the fixed exchange rates to the euro at the end of 1998, the euro is also taken into account. The US\$ gained value against Sterling during the 1990s, whereas both German mark and French franc gained strongly against the Pound until 199, but then depreciated almost 25% against Sterling. These results do substantiate concerns about exchange

rates raised in the SCBS survey and by respondents and indicate exchange rate-induced problems in main European markets.

Table 5.2: SCBS data on factors limiting sales

	Rank	Scotland	Glasgow
1996	1	Lack of demand	Lack of demand
	2	Insufficient space	Insufficient space
	3	Influence of tour operators	Weather
	4	Weather	Influence of tour operators
	5	Poor business trade	Price competition
1997	1	Lack of demand	Price competition
	2	Price competition	Lack of demand
	3	Insufficient space	Insufficient space
	4	Weather	High exchange rate
	5	Poor business trade	Poor business trade
1998	1	Lack of demand	Lack of demand
	2	High exchange rate	Poor business trade
	3	Price competition	Price competition
	4	Poor business trade	High exchange rate
	5	Weather	Influence of tour operators
1999	1	Lack of demand	Price competition
	2	Price competition	Lack of demand, insufficient space
	3	Poor business trade	Weather, poor business trade
	4	Weather	
	5	High exchange rate	
2000	1	Lack of demand	Price competition
	2	Price competition	Lack of demand
	3	Insufficient space	High exchange rate
	4	High exchange rate	Weather
	5	Weather	
2001	1	Lack of demand	Other
	2	Other	Lack of demand
	3	Poor business trade	Price competition
	4	High exchange rate	Poor business trade
	5	Influence of tour operators	High exchange rate

Figure 5.2 Exchange rates 1992-2001 (1992=100%)



The responses from the general managers are in the following contrasted with the SCBS data. The primary respondents, the general managers, shared their perceptions of market competition in the different product markets which is summarised in Table 5.3 which illustrates an increasing degree of competition from 1996 to 2001 across product markets.

Table 5.3: Competition in product markets in sample

Year	Hotel	Bars	Restaurants	Accommodation	Conferences	Other	Mean
2001	Red						
	Green	5	4	4	4	3	4.0
	Blue						
2000	Red						
	Green	5	3	3	4	3	3.4
	Blue	4	5	5	2.5	5	4.3
1999	Red						
	Green	4	4	3	3	3	3.4
	Blue	4	5	5	2.5	5	4.3
1998	Red						
	Green						
	Blue	3	4	4	2	4	3.4
1997	Red						
	Green						
	Blue	2	3	3	1	3	2.4
1996	Red						
	Green						
	Blue	1	2	2	1	2	1.6

1: very low competition – sales not limited by degree of competition, monopoly or quasi-monopoly, exceptionally high turnover

5: very high competition – many market participants, very low profit margins, pressures on cost management

GM Blue described increasing competition in the market with the mean increasing from 1.6 in 1996 to 4.3 in 2000. The least increase is in the conference market segment which may be explained by the vicinity of the hotel to a major conference venue and an advantageous position in that respect. The highest degree of competition is in the accommodations segment which is described as “very very very high”. The market is seen by GM Blue as “incredibly competitive. Incredibly competitive.” The opening of new hotel facilities in the city with

“486,000 bed nights per year, you know, that is a huge supply to put into a market place. So it just eroded everybody’s occupancy. And I think in 1999 there was something like 17 new bars opened in Glasgow, approximately 20 new restaurants, so again, massive, massive competition which didn’t exist previously.”

The high increase in competition in food and beverage and accommodations markets may be influenced by the fact that hotel Blue which is strategically located near a major conference venue was built at this site for precisely this reason according GM Blue. The location has advantages and disadvantages:

“Well, it’s an advantage and a disadvantage. It’s an advantage when they’re busy. When they’re not busy it’s a disadvantage, because the local business place sees us as being an out-of-town hotel. And they would rather be in the city centre than be here and have to get a taxi if they want to go out in Glasgow at night. So, it has its good sides and bad sides. (GM Blue)

The rise in accommodation facilities and food and beverage outlets in the city provides some indication as to the falling trend in optimism revealed in the SCBS data even in times of good performance.

GM Green also saw an increase in competition in all market segments from 1999 to 2001 with the mean rising from 3.4 to 4 in 2001 and agreed with Blue on the high competition in the bars and restaurants segment. The accommodation market has become highly competitive, but the less so than reported by Blue. The reason for this might be found in the more favourable location of Green in comparison to Blue in regard to non-conference business which would also explain the much higher degree of competition perceived in the conference segment than Blue.

GM Red chose not to use the Likert-type question format, but preferred to describe the market development verbally. The respondent agreed that competition has increased, however, emphasised an important distinction: compared to 1996, there is now “massive competition” in the leisure market. The increasing competition for “the pound in people’s pockets” and the influence of the expanding consumer electronics sector had effects on hotels. However, in the business market there has been an expansion as the city transformed towards a more cosmopolitan location with more higher quality hotels and an increased number of conventions held in Glasgow attracting international travellers used to higher rates.

“There is actually a lot more business there, even though the number of rooms has increased.”

“There is more supply, and demand hasn’t grown the same rate.”

“Compared with 10 years ago it seems a lot easier to sell rooms in Glasgow.”

The data from all hotels illustrating strong growth of average room rates presented at the beginning of this chapter supports this claim. GM Red saw further potential for rate growth as there is still a gap between Glasgow and Edinburgh in terms of rate also referred to by the marketing director of the local tourist board.

It is notable that for Blue which provided the most comprehensive five-year performance data, the degree of competition which has risen strongly from 1996 onwards was not reflected in poorer performance. In the “very good year” 1999 (GM Blue), performance reached a peak despite higher competition which is attributed primarily to the conference business cycle by GM Blue and consistent with SCBS data. As discussed at the beginning of this chapter, all hotels grew average room rates and are thus in contrast to the trend in the city reported above. Here, a further comparison between different star categories of hotels would have been desirable when using SCBS data as it is possible, as suggested by GM Red, that the large hotels with higher standards can raise room rate despite increasing supply in the market, albeit the degree of the rise in rate might be limited by the competition (“We can get the rates we want.”). In contrast, independent local hotels which engage in and also suffer from price competition may not be able to sustain this policy:

“At the moment they’re [local hotels] causing one or two problems because they are taking rate out of the local business, but they’ll struggle, they get squeezed out, pushed down.” (GM Red)

However, the sample for Glasgow was not large enough to meaningfully divide it into different star categories, and not all categories are consistently represented in the sample.

Occupancy data for Red from 1996 to 1998 also indicate a higher rate than would be expected from the SCBS sample. As discussed, only data from 1996 to 1998 were useable as 1999-2000 figures are biased due to refurbishment. Interestingly, this refurbishment was undertaken to support Red’s move into a higher market segment (from three to four star deluxe). Also at Green, performance was high as discussed in the previous chapter, with the exception of financial performance which fell. As average room rate grew and occupancy rate was consistently significantly better than expected, the reasons for this could be the mentioned decrease of number in guests attending receptions and banquets, particularly weddings, an important market for Green (“We do most weddings within Glasgow”), and the rising trend in costs in

Glasgow that is likely to affect the hotel industry as a whole and negatively influence financial performance despite high performance in industry-specific indicators.

The GMs were asked to indicate the main three factors limiting sales in the years from 1996 to 2000/2001 using the list of factors from the SCBS (see Appendix B 2) or adding other factors they regarded relevant. Their responses are summarised in Table 5.4.

Table 5.4: Factors limiting sales in sample

Year	Blue	Red	Green
2001			Influence of tour operators
			High exchange rate
			Lack of tourist demand
2000	Price competition		Influence of tour operators
	Poor business trade		High exchange rate
	High exchange rate		Lack of tourist demand
1999	Very good year for hotel and Glasgow as a city		Influence of tour operators
			High exchange rate
			Price competition
1998	No negative factors limiting sales		
1997	Very bad year for hotel		
	Lack of tourist demand		
	Poor business trade		
	Influence of tour operators		
1996	Internal factors rather than external factors limited sales		

Factors limiting sales for Blue in 2000 are listed above. 1999 was regarded as very good year by Blue, particularly due to good conference business at the nearby conference venue for which there is naturally less competition due to Blue's advantageous location.

"It [1999, M.E.] was a very good year for us (...) And it was such a tremendous year for Glasgow as a city."

"For me that has a major influence in the prosperity of the hotel. What happens, what events they have there has a big effect on what happens in this hotel. So our cycle is attached to that of the exhibition centre, and all exhibition centres are on a cycle."

The hotel is booked a long time i.e. several years ahead before conferences take place so that prediction of good years can be made. Blue's fortunes are closely linked to conferences and exhibitions which are on a four- to five-year cycle affecting in

particular Blue due to its vicinity to a main conference venue, but also other hotels in the city.

“1998 was ... it was OK. I can't really think of anything that had a bad effect on the business.”
“1997 was a bad year, was a very bad year.”

In 1996 “the hotel hadn't really realised its potential.” Internal rather than external factors limited sales growth and development.

“Things that were wrong was the reporting structure in the hotel, selling strategy of the hotel. It wasn't so much influenced by external factors, but by poor management internally in 96.”

GM Green saw the main limiting factor from 1999 to 2001 in the influence of tour operators followed by exchange rates. Whereas the third most limiting factor was lack of demand in 2000 and 2001, in 1999 it was price competition.

Apart from the importance of the exchange rate, there is little agreement between GM Blue and Green. This agreement is shared by GM Red who explained that for the leisure market, exchange rates are the most important factor. This is illustrated by an example: in 1996 German tours were very important for tour business in the city, but due to exchange rate changes (see above) they are now the least important type of business. According to the respondent, this development cannot be attributed to the influence of tour operators which contrasts sharply with GM Red's perception. This example illustrates the impact of macro-economic influences on a local market. Weather as a factor was disputed “I think it's an excuse.” Also tourist demand was not regarded as a helpful factor in explaining the influence of the economic environment on hotel performance as “Tourist demand, tourist demand I think is a wrong thing.” Demand, according to GM Red, depends strongly on marketing and, in comparison with Ireland and Iceland, the Scottish Tourist Board was described of having performed badly: “The quality of marketing is appalling, and the way we position Scotland is appalling.”

It was criticised by GM Red that despite of the cities being the main markets for tourism business, most of the STB budget flows into the highlands where only 11%

of bedroom stock are located. Bad marketing thus led to decrease in tourism. However, GM Red acknowledged that unlike the STB, Glasgow as a city was successful in marketing over the past years.

Labour market

In the following, the focus shifts towards the labour market in which the hotels operate. According to data from the LFS from 1996 to 2000 (see Appendix E 4), the agricultural sector employed between 1.1% and 1.4% of the labour base, energy and water between 2.3% and 2.4%, manufacturing between 15.8% and 19.1% (having contracted over the five years), construction (having expanded) between 6.1% and 7.0%, and services between 71.4% in 1996 and 73.2% in 2000. Hotels and motels with restaurants employed between 1.5% and 1.9% of the working population. The sectors differ widely in regard to the proportion of full-time and part-time staff employed. On average, part-time employment ranged between 24% and 25%. Sectors far below this average are energy, manufacturing and construction with between 3%-6%, 6%-8% and 4%-5% respectively. Agriculture ranges higher between 11%-18%. Services are above average in part-time employment with 31%-33%. The hotel sub-sector employs a higher part-time proportion again, i.e. 38%-46% (see Appendix E 4). Glasgow (LEC area) employment data from the Fraser of Allander Institute (2001) reveal that from 1996 to 2001 on average 84.1% of the labour force were employed in the service sector and on average 20.0% were employed in the distribution, hotel and catering sectors, thus indicating that both services and hotel employment are considerably higher in Glasgow than in Scotland.

According to the GGCVTB marketing director and director of the convention bureau, there have been 1000 vacancies in the hotel sector in Glasgow at the time of the interview and increasing competition from call centres intensifies competition for labour which will continue until 2006 when an additional 14,000 call centre jobs will have been created.

“There is a huge problem in the labour market. In that we, the hotel sector, has difficulty filling them.”

The tourism sector now employs 47000 people in the city which equates 7% of the workforce (according to respondent). The problem for the hotel sub-sector is that hotels are judged at their entry point pay which has traditionally been low. There is also a lack of awareness of potential candidates that despite the low pay at entry, the developmental opportunities in hotels are plentiful. According to the respondent, the opportunities lie in tapping into sources of labour that went previously unacknowledged such as unemployed. In order to be competitive on the labour market, employment conditions have to be improved in the sector.

“I think its terms and conditions need to modify and it needs to really do an awful lot to retain its people.”

The labour markets in Glasgow and Scotland show a different pattern as illustrated by Figures 5.3.1 and 5.3.2. Data are calculated again from unpublished SCBS data, detailed tables available in Appendix E 2 and E 3. In Scotland, a net of respondents to the survey indicated declining employment trends from 1996 to 2001 in the hotel sector, and full-time, part-time, and temporary employment followed the same pattern. Also, fewer companies indicated that provision in training will be expanded. In Glasgow, total employment trends fell from 1996 to 1997, reached a temporary peak in 1999, fell to 2000 and rebounded in 2001. The peak in 1999 coincides with the high demand and occupancy rates achieved in 1999. All types of employment followed this performance pattern, apart from, surprisingly, overtime working which fell from 1998 to 2000 and increased afterwards. Training provision which had been relatively stable until 1999 reached a peak in 2000 and dropped in 2001.

Figure 5.3.1: Employment I Glasgow

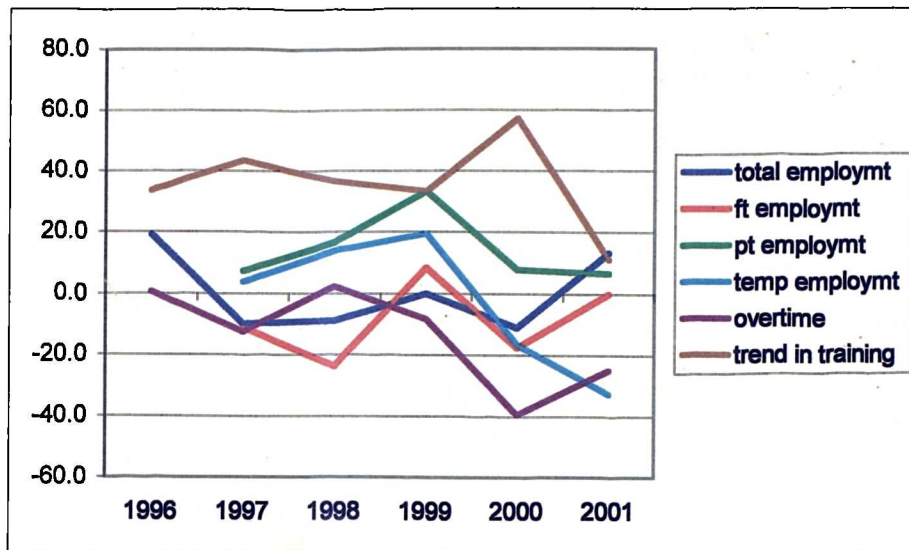
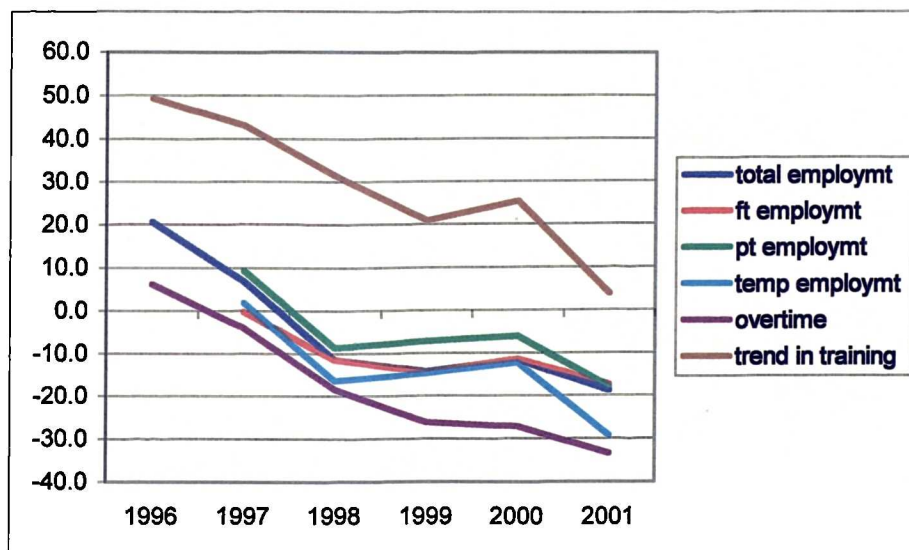


Figure 5.3.2: Employment I Scotland



Also the other employment indicators show a different pattern for Glasgow and Scotland. Recruitment activity has been below 80% in Scotland, whereas in Glasgow it has ranged between 80% and 100% of hotels indicating that they had been recruiting. Glasgow reached a peak in 1999 coinciding with a peak in performance indicators. The other indicators have been very stable in Scotland, apart from a somewhat rising trend in increasing salaries, problems retaining staff, but decreased recruitment difficulties. Glasgow, in contrast, saw a drop in recruitment difficulties

until 1999 which then rose starkly until 2001 with 80% indicating that they experienced difficulties finding suitable employees. Also, those indicating that they experienced retention problems rose to over 60% in Glasgow after a trough of only 8.3% in 1999. The trend in recruitment difficulties increased continuously with a net of 43.3% indicating increased problems recruiting employees. The net percentage of respondents indicating increased salaries in Glasgow declined, but remained positive and over 20% (see Figures 5.3.3 and 5.3.4).

Figure 5.3.3: Employment II Glasgow

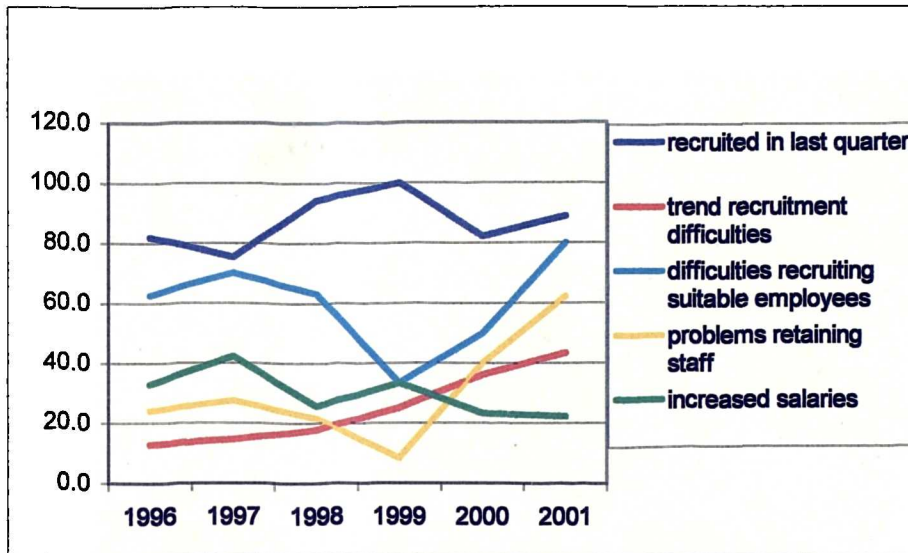
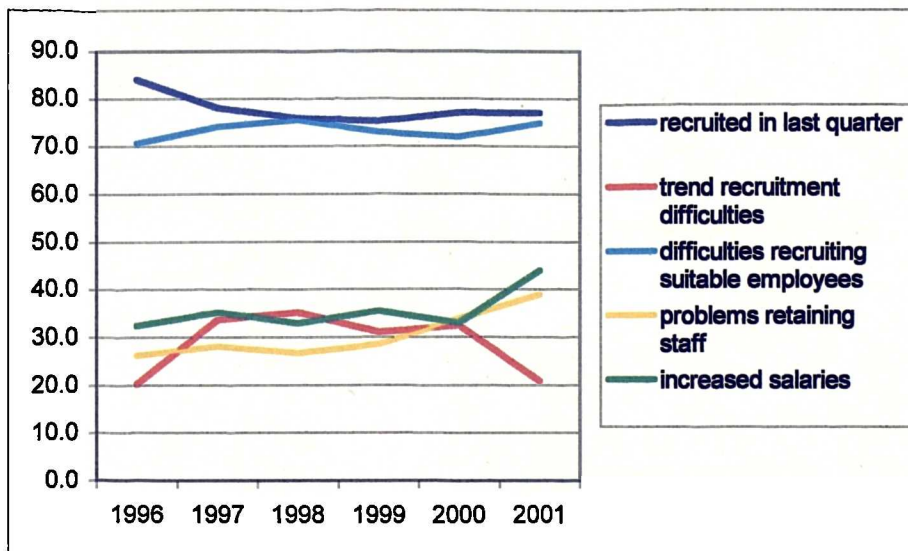


Figure 5.3.4: Employment II Scotland



Using SCBS data (see Appendix E 2 and E 3), an overview of the labour market for particular occupational groups is provided with the following graphs. From 1996 to 2001, recruitment difficulties have risen more strongly in Glasgow than in Scotland. In Glasgow recruitment problems have increased for all occupational groups based on respondents from the hotel industry, whereas difficulties have been rather stable for most occupations in Scotland apart from chefs/ cooks and other manual staff. These have also been the occupational categories with the highest rise in Glasgow, and the difficulties have been more pronounced than in Scotland as illustrated by Figures 5.3.5 and 5.3.6.

Figure 5.3.5: Glasgow recruitment difficulties

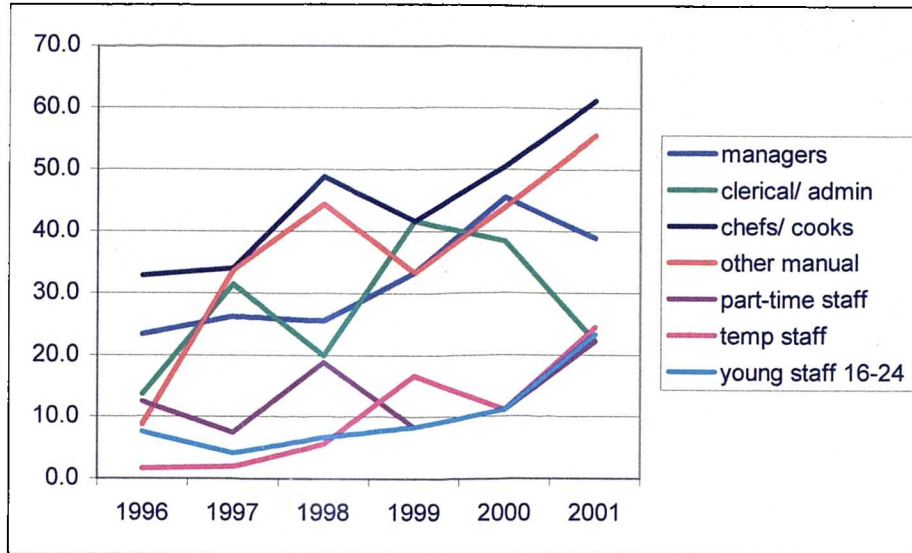


Figure 5.3.6: Scotland recruitment difficulties

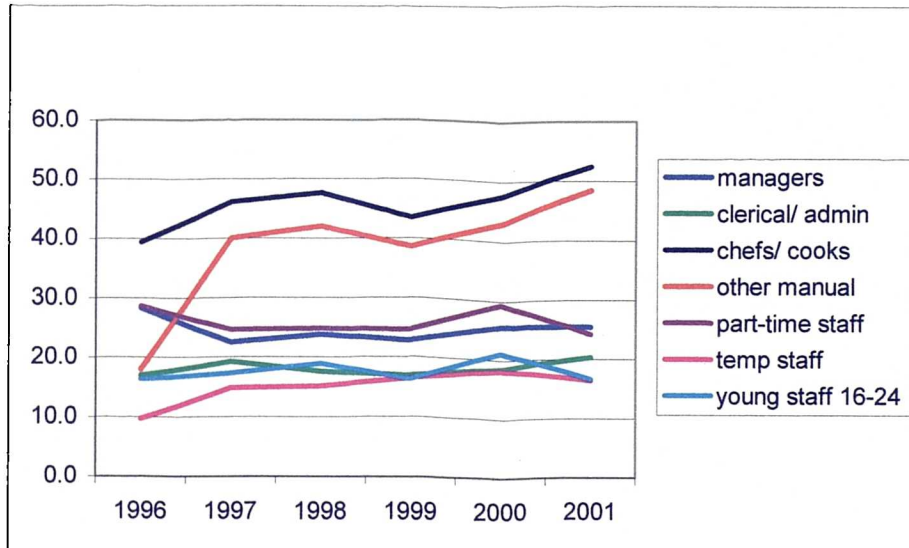


Table 5.5 displays the general managers' perceptions of competition for different employment categories.

Table 5.5: Competition for different staff groups in sample

	1996		1997		1998		1999		2000		2001	
	Bl	Gr	Bl	Gr	Bl	Gr	Bl	Gr	Bl	Gr	Bl	Gr
Managerial	3		3		3		3	3	3	4		3
Clerical/secretarial	3		3		3		4	3	4	3		3
Sales staff	3		3		3		3	5	3	5		5
Chefs/cooks	2		2		2		5	5	5	5		5
Waiting staff	3		3		4		5	5	5	5		5
Bar staff	3		3		4		5	5	5	5		5
Porters/security staff/ catering assistants	3		3		4		5	3	5	3		4
Cleaners/housekeepers	3		3		3		5	3	5	4		2
Kitchen porters	5		5		5		5	3	5	3		2
Average	3.1		3.1		3.4		4.4	3.9	4.4	4.1		3.8

1: very low: now difficulties recruiting staff; vacancies can be filled rapidly

5: very high: strong difficulties recruiting suitable staff; vacancies remain open for too long with strong negative operational implications such as many hours overtime or poor service quality due to understaffing

The average scores rose from 3.1 in 1996 (moderate) to high (4.4) in 2000 at Blue with the less skilled categories (other manual in SBCS terminology) being the most problematic. At Blue, the competition for labour was seen as consistently moderate for managerial and sales staff with clerical staff having been increasingly difficult to recruit (from moderate to high difficulties in 1999). "And rate of pay is the main issue here." (GM Blue). The highest increase has been in the categories chefs, waiting staff, bar staff, porters and cleaners. Kitchen porters have been consistently difficult to recruit due to fact that "it's a rotten job, nobody wants to do it. You only fill it in periods of very high unemployment." The recruitment difficulties in the above categories was attributed by the respondent to a low rate of unemployment in the economy, competition for labour and the undesirable nature of the jobs which also leads to a high labour turnover.

"Porters, waiting staff, bar staff, chefs, housekeeping staff – very high labour turnover, because there is so many people willing to recruit them, you know – supply and demand. We all need them and there isn't enough supply." (GM Blue)

GM Green who provided data for the years 1999 to 2001 regarded the labour market competition on average as high (ranging from 3.8 to 4.1). Chefs/cooks have been very difficult to recruit, equally waiting and bar staff. Sales staff were also very difficult to find for Green, but porters, cleaners and kitchen porters were not difficult to recruit, porters increasingly difficult.

GM Red, who did not use the given Likert-type answer categories, preferred to talk freely about his views of labour market competition in the city. According to GM Red, there has been a lack of skilled local hotel management which was caused by the long absence of a number of quality hotels in Glasgow and which meant that to a certain degree management had to be imported to Glasgow. The number of call centres in the area over the last years had two effects: firstly, an increased competition for clerical staff (“Constantly getting harder getting the quality people you want.”), but secondly a higher staff quality. The higher staff quality led to a pressure on increasing pay to competitive levels. Sales staff was regarded as difficult to find as the locally available staff was not used to sell in the upper market segment so that sales people had to be imported to the city. The shortage of chefs is concentrated, according to GM Red, at the higher grades which are now rare as deskilling policies in kitchens five to ten years ago now become apparent in their effects. Waiting staff, bar staff, porters and housekeepers “we don’t have a problem.”

“What you’re really looking at, is where you need the real skilled areas, is getting increasingly difficult. ... It’s something that we’re probably getting more demanding for. As the quality of the establishment goes up, as people trying to raise the quality of the game, there is not enough quality people to go round at the top end. And again, if you got a history of good quality hotels within a city, that area is not as hard to find. If you go to London, it’s not as hard to find.”

According to GM Red, staffing problems in the hotel are not as pronounced as in national brands due to Red’s internationality:

“The same people who want to work within the industry will come where they think they have the better career prospects, so they go for the international brands. So, we don’t necessarily see it so much as the less known hotels, they probably find it a lot harder.”

Thus, there is agreement among all respondents that chefs and cooks have been (increasingly) difficult to recruit, yet there is some disagreement regarding other

categories. Sales staff were a problematic category in terms of recruitment for Green and Red, but not for Blue, whereas Green and Blue agreed on chefs/ cooks, waiting and bar staff as well as porters/ security staff/ catering assistants being increasingly difficult to recruit. Waiting and bar staff, however, were not difficult to find for Red. It must be born in mind, however, that Red had no long-term experience comparable to the other general managers in a Glasgow city property. The accounts of Green and Blue are consistent with SCBS labour market data discussed above, suggesting that particularly chefs/ cooks and other manual were increasingly difficult to recruit. Red's response regarding managers is consistent with the SCBS data.

The greater problem of Blue in the categories cleaners/ housekeepers and kitchen porters could possibly be explained by Red's comment on international brands' advantage in the labour market. As Blue, in contrast to Red and Green is not an international brand it would help explain why recruitment difficulties are perceived as more pronounced than at the other hotels. However, it is certainly not an unknown local brand, but an established and well-known national brand. Secondly, this explanation would not take into account that the relatively skilled category of sales staff is less problematic at Blue than the other hotels. An alternative explanation would consist in the fact that hotel Blue is not as centrally and conveniently located for public transportation as the other hotels are as acknowledged by GM Blue by commenting that Blue is perceived somewhat of an "out-of-town hotel" which is exacerbated for those categories which do not constitute desirable labour anyway as expressed by GM Blue. A line manager at Blue explains the fact as follows: "There is more places for people to go and work at. So less people want to come an work in a hotel. And less want to work in this particular hotel, because of the distance." (LM1 Blue)

In summary, environmental factors in the product market do provide a strong basis on which to examine organisational performance, thereby supporting H1. Glasgow as a destination has become more attractive and established in international markets. Blue's five-year performance pattern is very much in line with SCBS data for Glasgow, most of Green's performance indicators are high and broadly consistent

with the data (apart from 2000) and Red's increased occupancy rate and room rate (similar to Blue's and Green's) also point towards better performance. The three hotels outperformed the market as represented by SCBS data in terms of average room rate which is likely to be related to the upper market segment in which all operate. Unfortunately, the Glasgow SCBS sample size is too small to break the sample down to star categories to substantiate this claim further. But bearing in mind that the three hotels in this sample already constitute a good representation of upper market segment hotels in the city, there is good support for this proposition. The trend of falling financial performance despite otherwise good performance at Green can be assumed to be caused by both a higher trend in costs in the city and a shrinking food and beverage revenue at Green which had been and is relatively high in importance (the highest percentage of the three hotels). Therefore, the increased competition in the bars and restaurants market is likely to have affected Green's financial position in particular and the shrinking banqueting and weddings-market, affected by decreasing size of weddings (not their absolute number) – whose reasons can be assumed to be of sociological nature – will have further contributed to this development. As the hotels – despite being of the same star-category – operate in slightly different markets, different accounts of sales limiting factors cannot come as a surprise. Yet, equally unsurprising is the jointly experienced influence of a macro-economic development, i.e. the exchange rate shifts towards an unfavourable side for UK hotels in general which affected the European tours market in particular.

There is a general agreement that the labour market has become tighter which is in line with SCBS data for Glasgow and responses from the external source, the local tourist board marketing director. Chefs and cooks have been increasingly difficult to recruit as have some other manual occupations, albeit there is some disagreement of the precise groups. Location might provide some basis on which to build an explanation for this, however, results are inconsistent.

Scottish and Glasgow figures differ strongly in that Glasgow's labour and product markets have been more turbulent and more extreme in its developments than Scottish markets. For example, the percentage of hotels recruiting has been in a

higher range in Glasgow and with a higher variation. Overall employment trends have fallen in Scotland, but shown oscillations in Glasgow with several employment types reaching a peak in 1999 reflecting higher overall demand and occupancy rates. These observations emphasise the need to isolate particular markets when investigating environmental influences on organisational performance. Using Scottish figures only, parallels to the sample hotels could not have been observed.

5.2 Evidence relating to Hypothesis 2

H2: HRM contributes to organisational performance

H2a: HRM contributes to performance through its alignment with business strategy

H2b: The achievement of operational objectives and the solution of operational problems depend on the availability of staff with the relevant qualities and in the adequate quantities

H2c: The availability of staff with relevant qualities depends on the application of advanced HRM techniques

H2d: The availability of staff in the adequate quantities depends on the application of advanced HRM techniques

In this section, the evidence in relation to the core hypothesis H2 and its subordinate hypotheses assuming a causal path from HRM to performance is evaluated. The data are presented on a case-by-case basis starting with hotel Blue, followed by Green, Red, and Yellow. At the end of this section, the evidence is summarised and integrated on a more global level whereby differences in response patterns between the different cases are highlighted.

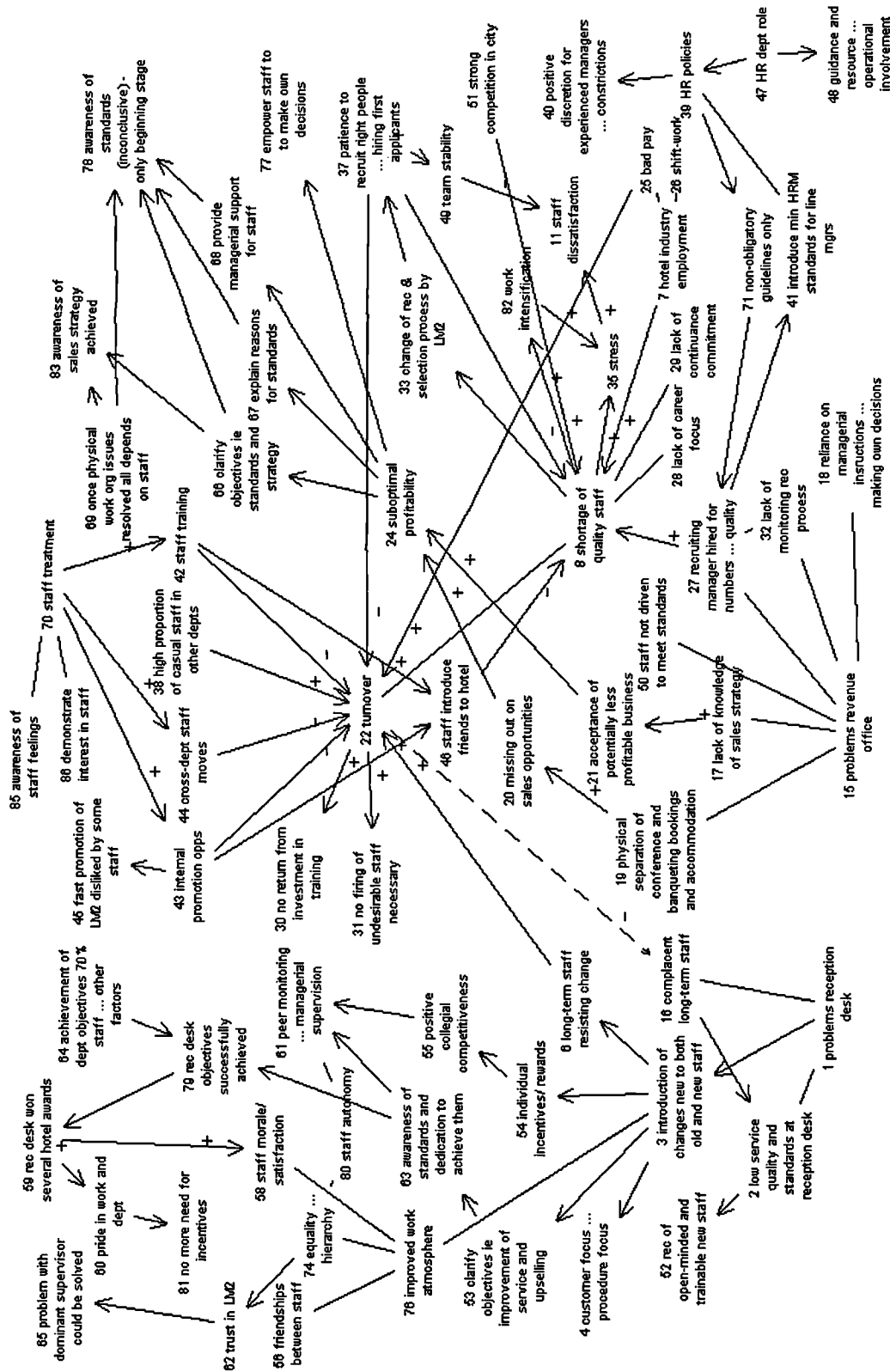
Each case starts with a presentation of the causal maps generated from interviews with general managers and two line managers per hotel (with the exception of Yellow where only one manager could be interviewed). The interview transcriptions were subjected to causal mapping (CM) as discussed in Chapter 4. In order to

facilitate an understanding of the maps, verbal descriptions summarising the key content of the original interview transcriptions are to be found in Appendices D 2 and D 3. These summaries can be referred to for facilitating an understanding of the causal maps, but they are no substitutes for the maps. The links in the maps are based on the original transcripts which were coded as described in Chapter 4 and therefore represent the interviewees' interpretations, not the researcher's. The concepts used in the maps are either phrases close to the original text or nodes used during coding (see Appendix C for a list of nodes). All concepts on a map are numbered, and these numbers are referred to in the discussion to facilitate reference to key issues on the maps where appropriate.

Following the presentation of the causal maps, the data are analysed. The *Decision Explorer* software used allows for a "domain analysis" of the centrality of concepts by calculating how many directed arrows are associated with a concept. Non-directed arrows used to indicate definitions or associations are not taken into account. The key causal directions implied by the respondents are then analysed. After the analysis of the cause map generated from general managers' responses on the topics organisational strategy, HRM policy choices to support the strategy and the effectiveness of these policies, the two line managers' mental maps are analysed. As the interviews with line managers (in contrast to those with general managers who also provided data on competition and performance presented earlier) were entirely focused on the processes involved and more extensive, it was decided to structure the discussion around certain topics to achieve transparency of the data analysis process. Firstly, the context in which HRM was introduced or changed on a departmental level is discussed. To acknowledge this context is useful for revealing managers' intentions and aspirations in regard to HRM deployment which constitute an important starting point for evaluating the processes by which HRM can contribute to business objectives. A stronger case for HRM effectiveness can be made, if HRM policies are introduced in the context of organisational problems for which HRM is seen as a solution, rather than as a response to institutional pressures to adopt certain practices, for example. Having established the context in which HRM policies were changed or introduced, the policy areas in which changes took place are identified

and specific concepts in the managers' maps categorised within specific HR dimensions, e.g. recruitment and selection and training and development. Secondly, direct and indirect effects of HRM policies in the areas identified are analysed. Direct effects constitute immediate effects denoted by a directed arrow to another concept, and indirect effects constitute a further directed arrow from this concept to a third concept relevant to the research hypothesis. Thirdly, further effects are described. These comprise effects of those concepts either revealed as central in the domain analysis or those which appear to link concepts related to HRM or performance concepts. Finally, it is analysed by which concepts the outcome variables are influenced. Outcome variables are those which were specified explicitly by the respondents as objectives during the interviews and those which emerged as dependent variables in the course of causal mapping (i.e. performance-related concepts which were influenced positively or negatively by other concepts, but did not influence any concepts themselves). For the discussion of each causal map, this structure remains the same, but reflecting the idiosyncratic nature of the managerial maps, the context of HRM introduction, direct and indirect as well as further effects and outcome variables varies across respondents and cases.

Figure 5.4.3: LM2 Blue Cause Map



Analysis Blue

Blue is located near a major conference venue and relies on conference business to a large degree. Whereas its location was seen as clearly beneficial for conference business, it was perceived as certain disadvantage for other types of business by the general manager (GM). According to the general manager, a dysfunctional sales management structure in place until 1996 was changed, the role of a revenue manager integrating different sales functions introduced, and a more clearly yield-oriented strategy established. HRM changes were introduced to be able to support the shift in organisational strategy towards higher service quality and operating efficiency. Achievements in these areas were acknowledged by company awards in 1998 and 1999. Subsequently, the previously narrow definition of performance was extended to include service quality, brand standards adherence, labour turnover and staff attitude surveys which are have become assessment criteria for the hotel's performance. The greatly increased emphasis on HRM in terms of resources dedicated and in terms of comprehensive regional restructuring contributed to success with customer service programmes and hence organisational objectives. HRM impacted primarily through improved support from the regional HR managers for training as well as recruitment and retention which is seen as the "biggest challenge" requiring specialist HR input (GM Blue). The "challenge" had increased due to labour market-induced staff shortages requiring to hire "raw products", i.e. unqualified, but trainable staff. Thus, it is not surprising that recruitment and retention were seen the key issues which were regarded as "absolutely critical". The labour market conditions exacerbated a particular condition to the industry consisting in the fact that the business relies heavily on people delivering the services:

"You know, they [staff, M.E.] are parts of the product that we sell, it's as simple as that. We rely on people, we are about people delivering the service and the standards we want to and all of that starts with HR, there is no question about it, it all starts there."

The most central issues for the first interviewed line manager (LM1) were a change in management structure and several HR-related issues such as turnover, commitment, staff shortages, work attitudes, training, improvement of recruitment and selection techniques and others (see Table 5.6.1). This centrality reflects LM1's

description of staff as the most relevant factor for achieving departmental objectives being rated 80% accountable.

Table 5.6.1: Domain analysis results LMI Blue

No of links to concepts	Concepts
10	May 1999: change in man structure – creation of F&B manager role
9	Staff turnover
8	
7	Commitment
6	
5	Staff shortages, work attitudes
4	Integrate F&B departments, train staff, improve rec & sel techniques
3	Low staff quality, low ground-floor staff quality, difficulties coping with competition, predominantly casual staff, staff treatment and employee relations, financial strain, legal changes, train managers, numerical flexibility, service quality, internal promotion opps, clarification of objectives, conditions
2	Hotel industry terms and, common goals projects and mgt style, profitability, change staff mix to more fit positions, importance of HR as information source, work intensification, establish clear selection criteria
1	Management structure problems, F&B depts. disjointed ... integrated, increasing labour market competition, bad rec & sel technique, lack of rec & sel criteria, attitudes: rec for numbers ... quality, planning difficulties, lack of financial controlling skills, financial controlling skills, supervisory training, cross-dept staff exchanges, hotel industry seasonality, regional HR importance, regarded as better dept than before, standstill ... progress, significant turnover reduction to 35% in 2001, mutual assistance between managers, staff autonomy, bad pay
0	Several concepts used as definition parts for other concepts

Firstly, the context in which HRM was introduced or changed is considered. In 1999, the F&B department faced both management structure problems by a lack of integration between the different functions and personnel- or HR-related problems. Changes in HRM were brought about *after* the role of the F&B manager was introduced in May 1999. They were regarded as necessary because the lack of sophisticated HR policies or, more precisely, the lack of their application had proved dysfunctional in the past. Low staff quality, influenced by the unfavourable conditions of employment in the hotel industry was exacerbated by lowly qualified management with a lack of skills in recruitment and selection (concepts 15, 16, 17). A lack of financial controlling skills – despite good operational skills – led to suboptimal profitability.

In order to change the low staff quality, increase profitability, service quality (in line with the overall hotel strategy) and to reduce staff turnover whose negative

implications had been acknowledged, a range of HRM initiatives were introduced or changed. These took place in the areas work organisation (concepts 36, 46), training and development (concepts 38, 42), recruitment and selection (concepts 45, 69), employee relations and staff treatment (concept 27), staff autonomy (concept 65), objective setting (concept 60), internal promotion (concept 57), and staff composition (concept 44).

These HRM policy changes had both direct and indirect effects discussed in the following. In the area of **work organisation**, common projects (concept 36) through the integration of different sub-functions helped reduce the difficulties in coping with competition, and cross departmental staff exchanges (concept 46) introduced functional flexibility previously not practiced in the department. This constitutes thus evidence for non-behavioural effects of HRM practices as it is the mere cooperation and changed working structure between different F&B managers which helped reduce difficulties experienced, not any employee outcome associated with it. In the domain of **training and development**, the training of managers (concept 38) in supervisory training (concept 43) supported the training of staff (concept 42), necessary to increase overall skill levels; training in financial controlling skills (concept 40) addressed the previous deficiency in this area and directly impacted positively on departmental profitability (concept 41). Both criteria (concept 45) and techniques (concept 59) were changed in **recruitment and selection**, leading to a better staff quality recruited which was needed to achieve departmental objectives; ironically, however, the more sophisticated recruiting practices also impacted indirectly on staff shortages as higher selectivity increases quantities recruited; according to LM1, in times of high demand for staff, the stringent selection criteria may have to be compromised.

Practices within the area of **employee relations and staff treatment** reduced turnover and increased commitment (which itself had a direct negative effect on turnover). Giving **autonomy to staff** in regard to how to organise work (even though standard outcomes are fixed) also increased commitment which had an indirect negative effect on turnover. **Objective setting** was seen as important as the

clarification of business objectives and explaining reasons behind them had positive effects on both work attitudes and commitment which themselves reduced turnover. Better attitudes lead to higher service quality. **Internal promotion** had the same direct and indirect effects as objective setting. Changing the **staff composition** towards a higher proportion of full-time positions had a positive effect on commitment and thereby indirectly contributed to reduced staff turnover. However, the previous staff composition with a high proportion of casual and part-time employees had been adopted out of the need for numerical flexibility intrinsic to the industry. It can thus be assumed that a higher degree of full-time staff reduces numerical flexibility. However, this could be counteracted by the functional flexibility introduced through integration of departments. The poor **incentives and rewards** characteristic of the industry influenced staff turnover positively.

Further effects are considered next. **Staff turnover** was increased by work intensification and negatively related to work attitudes and commitment as well as staff treatment and employee relations; its effects were negative financial implications, planning as well as development difficulties due to frequently new staff to be trained and induced. It was also influenced by bad pay characteristic of the hotel industry. **Commitment** reduced staff turnover and was itself reduced by a staff composition of predominantly casual staff, and improved by clarification of objectives, staff autonomy, staff treatment and employee relations, internal promotion opportunities and a change in staff mix towards more full-time positions. Positive **work attitudes** reduced staff turnover and helped improve service quality. Work attitudes were negatively influenced by a high proportion of casual staff and improved by a clarification of objectives and the presence of internal promotion opportunities. Staff shortages lead to work intensification and thereby indirectly contributed to labour turnover.

Hotel industry terms and conditions characterised by bad pay, long hours, and hard labour contributed to both staff shortages and low staff quality. Although an external factor, it is HR policy of choice within hotels to pay a low rate. "Rate of pay, whether people agree with me or not, is a massive thing" and it had a direct

influence on staff turnover as well as (together with the other negative characteristics of employment in the hotel industry) on staff quality. The bad pay had not changed, and cannot be changed, according to LM1: “We cannot afford to pay above the minimum wage, because it already had such an impact on us.” However, increased training helped improving staff quality, according to the respondent.

The following outcome variables were specified: profitability, service quality and turnover. **Profitability** had been negatively affected by a lack of financial controlling skills by management; this was changed by training provision in the needed skills which positively impacted on profitability. **Service quality** was positively influenced by work attitudes and a higher degree of staff training which had been lacking before LM1’s arrival. **Turnover** of staff was significantly reduced to 35% in 2001 due to effects of commitment, work attitudes and staff treatment and employee relations. Although not made explicit by the respondent, it can be assumed that the increased staff quality through better recruitment and selection had an effect on the outcome variables as it seems unlikely that staff quality is a value per se. It had a function in achieving organisational objectives.

Similar to the first line manager interviewed at Blue, the second interviewed line manager (LM2) also regarded staff as the most important factor required for achieving departmental objectives. LM2 was first employed at the reception desk and then transferred to a position in the revenue office. Staff contribution was rated 70% for the reception desk and 100% for the revenue office after the removal of physical barriers preventing the desired integration of strategies. As for LM1, the most central concepts were HR related issues, i.e. turnover and shortage of quality staff. Domain analysis results are summarised in the Table 5.6.2.

Table 5.6.2: Domain analysis results LM2 Blue

No of links to concepts	Concepts
10	Turnover
9	
8	Shortage of quality staff
7	
6	Suboptimal profitability
5	Introduction of changes to both old and new staff
4	Patience to recruit right people ... hiring first applicants, internal promotion opps, awareness of standards
3	Recruiting manager hired for numbers ... quality, stress, HR policies, staff training, staff introduce friends to hotel, rec desk won several hotel awards, awareness of standards and dedication to achieve them, clarify objectives i.e. standards and strategy, staff treatment, rec desk objectives successfully achieved
2	Complacent long-term staff, low service quality and standards at reception desk, long-term staff resisting change, staff dissatisfaction, missing out on sales opportunities, acceptance of less profitable business, change of rec & sel processes by LM2, cross-dept staff moves, HR dept role, team stability, clarify objectives i.e. improvement of service and upselling, individual incentives/rewards, positive collegial competitiveness, pride in work and dept, peer monitoring ... managerial supervision, trust in LM2, explain reasons for standards, provide managerial support for staff, once physical work org issues resolved all depends on staff, non-obligatory guidelines only, awareness of sales strategy achieved, work intensification
1	Customer focus ... procedure focus, hotel industry employment, problems reception desk, lack of knowledge of sales strategy, physical separation of conference and banqueting bookings and accommodation, no return from investment in training, no firing of undesirable staff necessary, high proportion of casual staff in other depts., positive discretion for experienced managers ... constrictions, introduce min HR standards for line mgrs, fast promotion of LM2 disliked by some staff, guidance and resource ... operational involvement, strong competition in city, rec of open-minded and trainable new staff, staff morale/satisfaction, achievement of dept objectives 70% staff ... other factors, problem with dominant supervisor could be solved, equality ... hierarchy, empower staff to make own decisions, no more need for incentives, bad pay
0	Several concepts used as definition parts for other concepts

HRM was changed within the following context. At the reception desk, the problems preventing high service standards were staff-related. The changes introduced involved strategy changes (i.e. focusing increasingly on customer satisfaction), and HR changes (concepts 52, 53, 54). These led to changes in employee outcomes which in turn affected the achievement of objectives. At the revenue office, the problems found by LM2 after her promotion were again staff-related (concepts 17, 18, 50) or HR related (concepts 27, 32). HR changes aimed at addressing and solving particular issues specific to the department and had effects on employee outcomes as well as achievement of departmental goals. The changes took place in the following areas: work organisation (concept 44), training and development (concept 42), recruitment and selection (concepts 27, 32, 33, 37, 52), employee relations and staff

treatment (concepts 68, 70), staff autonomy (concepts 77, 80), objective setting (concept 53, 66, 67), internal promotion (concept 43), staff composition (concept 38), and incentives (concepts 54, 81).

These HRM policies had direct and indirect effects. In the area of **work organisation**, cross-departmental staff moves were the result of good staff treatment by giving alternative opportunities to staff unhappy in a particular department; doing so had a reducing effect on turnover. **Training and development** were instigated by high concern for staff treatment and had reducing effects on turnover as well as positive effects for staff acquisition as staff introduced friends to the hotel. Training thus indirectly reduced staff shortages. **Recruitment and selection** of new staff without preconceptions was beneficial at the reception desk where long-term complacent staff was uninterested to change the low standards and poor service through new methods, though no direct effects were specified. At the revenue office, managers recruiting for numbers rather than quality were able to do so given the lack of monitoring of the recruitment process. The poor recruitment techniques contributed to staff shortages and turnover with several indirect negative effects on the department. A change of the recruitment processes was instigated by LM2 and a new approach with an emphasis on quality rather than quantity established. This directly improved team stability indirectly reduced staff dissatisfaction.

Employee relations and staff treatment should be based on the awareness of staff feelings and interest in staff should be demonstrated, according to LM2. Good staff treatment can be positively related to offering internal promotion opportunities, cross-departmental staff moves, and staff training. Thus, good staff treatment, according to LM2 leads to the deployment of different HR practices. At the reception desk, **staff autonomy** was not directly caused by any concept, but associated with a culture of equality rather than hierarchy and peer monitoring rather than managerial supervision. At the revenue office, the departmental outcome suboptimal profitability caused LM2 to empower staff to make their own decisions rather than relying on managerial guidance only (as was the case initially). No effects were referred to, but it can be assumed that this empowerment positively supported the application of the

new sales strategy. At the reception desk, **objective-setting processes** involving clarifying new objectives such as service improvement and upselling led to staff awareness of these standards and a dedication to achieve them. This had been made possible by LM2's arrival and the subsequent changes, leading unmotivated old staff to leave while new staff was hired so that the labour pool consisted of new or old, but motivated staff who were then given clear objectives. At the revenue office, the process of clarifying objectives and explaining underlying reasons led to the achievement of an understanding of the new sales strategy and potentially of the new standards to be applied, i.e. objective-setting processes directly contributed to the achievement of idiosyncratic departmental outcome specifications.

Internal promotion opportunities had the same effects as training, i.e. a reduction of turnover and an introduction of friends to the hotel, thereby reducing staff shortages. However, a negative effect of internal promotion was illustrated by some long-term staff disliking LM2's fast promotion both in the revenue office and the reception desk. In the area of **staff composition**, LM1's accounts received support from LM2 in that the high proportion of casual staff (not, however, an issue in LM2's department) can be associated with increased turnover. **Incentives and rewards** were primarily non-financial, but aimed at an explicit recognition of individuals' contributions and led to positive collegial competitiveness in the context of a relaxed and supportive atmosphere. Peer monitoring eventually replaced managerial supervision as staff had internalised objectives and standards. The low pay characteristic of the hotel industry contributed to turnover.

Further effects were identified. **Turnover** was increased by a high proportion of casual staff, and reduced by promotion opportunities, cross-departmental staff moves, training provision, higher selectivity in recruitment and selection, and bad pay in the hotel industry which, according to LM2, encourages staff to leave for a better-paid assignment, if the opportunity arises. Its effects are negative as it prevents return in investment in training for staff, but can be positive as undesirable staff do not have to be dismissed, but leave on their own accord. It is connected (without direction) to the concept **shortage of quality staff**. Quality staff shortages (defined

by LM2 as shortage of staff with lack of continuance commitment and a lack of career focus) were reduced by staff introducing their friends to the hotel which in turn was improved by the presence of above discussed HR practices. Staff shortages lead to work intensification and stress, thereby indirectly to staff dissatisfaction. Shortages of quality staff were induced by hotel industry employment conditions and had been increased by uncritical recruitment practices which however were changed so that the trend was reversed.

The following outcome variables were specified: suboptimal profitability and lack of awareness of strategy, and reception desk objectives. **Suboptimal profitability and lack of awareness of strategy** was induced by a physical separation of different elements of the conference and banqueting and accommodation booking functions through missing out on sales opportunities. Also, due to a lack of knowledge of the sales strategy (which had, according to the GM changed towards a yield-oriented strategy rather than volume oriented strategy), potentially less profitable business had previously been accepted which contributed to suboptimal profitability. Objective-setting processes discussed above and managerial support led to an **awareness of the sales strategy** which had been an idiosyncratic departmental target. The **reception desk objectives** of improving service and upselling have been achieved after restructuring the departmental labour force, deploying objective-setting processes within the context of a work atmosphere characterised by motivation, support and job satisfaction. The achieved objectives led to hotel awards to the reception desk which in turn positively influenced staff morale and satisfaction as well as pride in the department. The individual incentives introduced to create a sense of achievement and competitiveness were then becoming obsolete.

Overall at Blue, changes in HRM were introduced as either a response to HR- or staff-related problems preventing the achievement of new departmental targets or as a consequence of changes to the management structure. Unlike problems with selection, training or objective setting, the negative effects of bad pay and staff quality have not been addressed. HRM changes either led directly to the achievement of goals, or – more often – through an effect on employee outcomes. All respondents

agreed that staff was the most significant factor for goal achievement, both on a hotel and a departmental level, thereby supporting H2b. There is clear evidence, both from direct responses by the GM and LM1 as well as through the analysis of the causal maps that HRM did indeed contribute to performance, thereby supporting H2. Although not congruent with popular conceptions of matching or fit models of HRM, there is supporting evidence that HRM was deployed to support organisational strategy so that H2a receives good support, however this was done in a very practical and problem-oriented way. Recruitment and selection, training and objective-setting processes proved particularly instrumental in achieving departmental objectives or reducing obstacles for their achievement which supports H2c as these are managerial activities aiming at the creation of a labour force qualitatively able to support organisational objectives. Labour market pressures and unfavourable employment conditions acknowledged by all respondents reduced the availability of *sufficient* staff. Although this is negative, the respondents placed higher emphasis on the quality aspect of staff acquisition consistent with the overall strategy to improve quality of service and operational efficiency which requires skilled staff. Apart from the process described by LM2 that certain practices motivate staff to encourage their friends to apply, thereby reducing staff shortages, there is little evidence for H2d. However, LM1's account of increased sub-divisional cooperation on both managerial and staff levels and the associated functional flexibility may illustrate an alternative to a quantity focus.

Figure 5.5.1: GM Green Cause Map

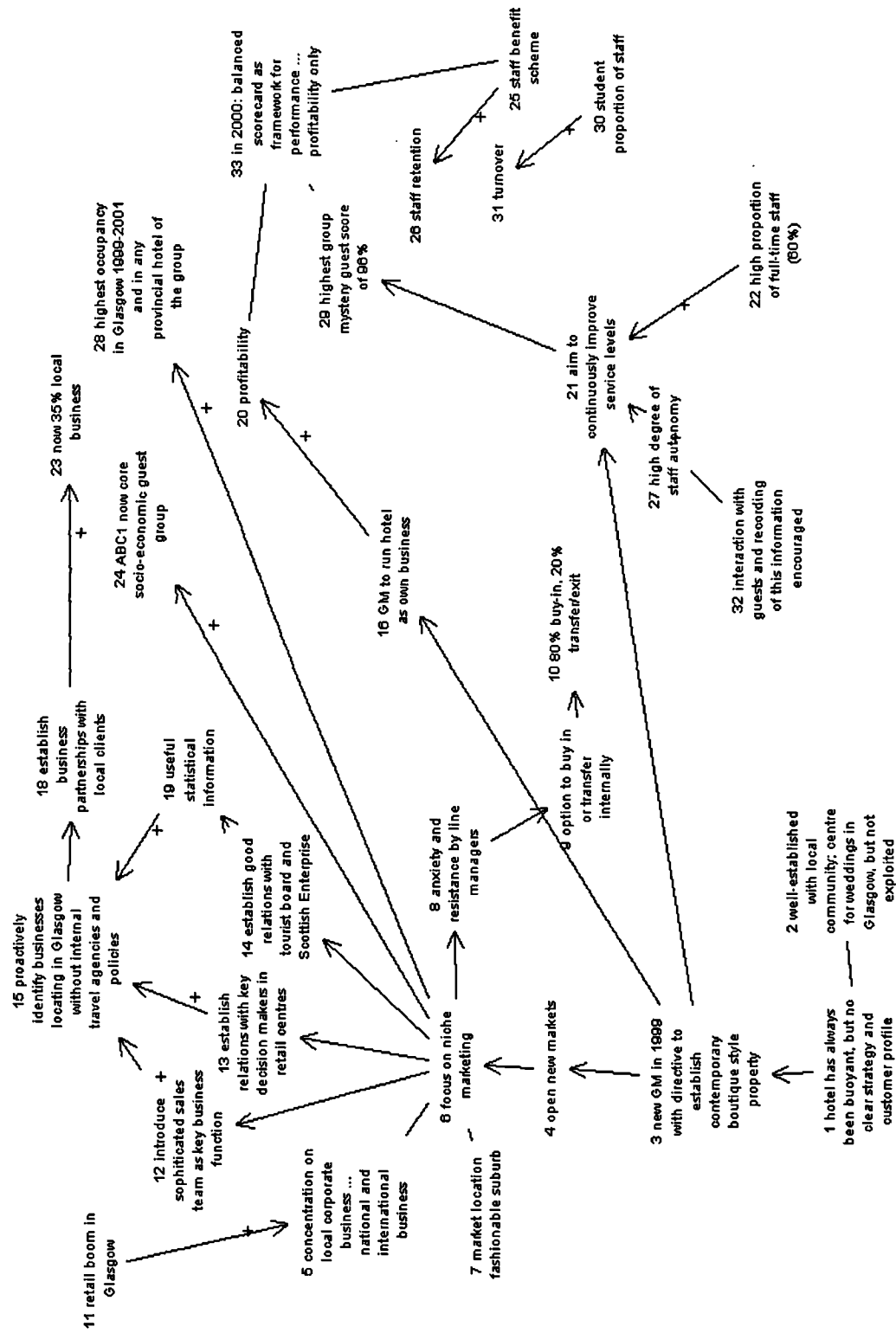
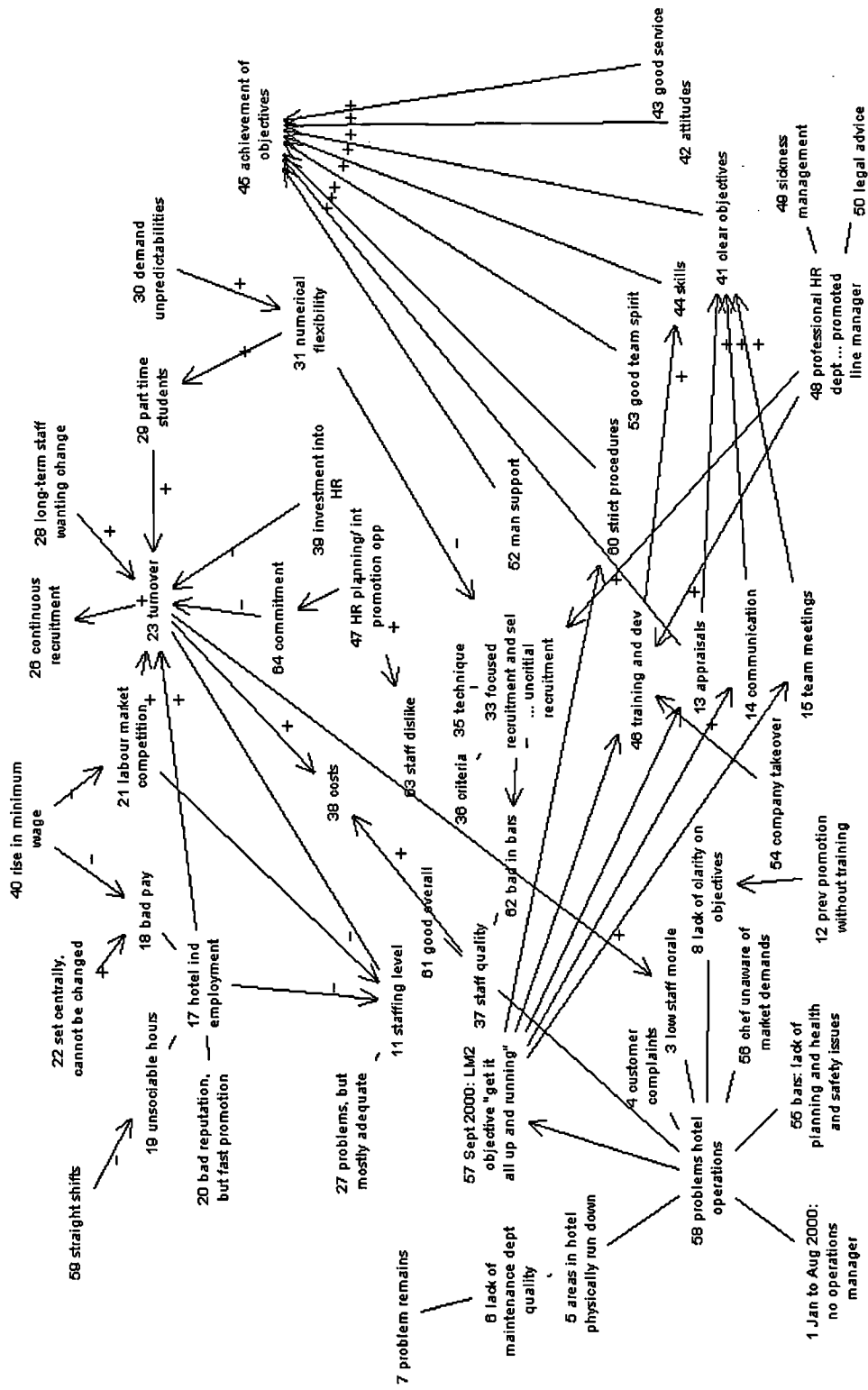


Figure 5.5.3: LM2 Green Cause Map



Analysis Green

Though busy and well-established in the local community, hotel Green had prior to 1999 not fully exploited this opportunity and deployed a “fairly erratic” sales strategy, according to the general manager. After the arrival of a new general manager (GM) with the directive of establishing a boutique-style property, a decision was made to establish a consistent and new sales strategy of niche marketing focusing on capitalising on the location and concentrating on local corporate business rather than international travellers. The opportunities for a successful niche marketing strategy had been improved by the retail boom in Glasgow in recent years. Central to the achievement of the strategy was the introduction of a sophisticated sales team as a key business function which was “a fairly fundamental change because I’m a great believer that sales is probably one of the foremost functions of a hotel operation.” (GM Green). Such a skilled sales team with market division specialisations was necessary to target potential local clients and establish partnerships with these. As now 35% is local business, the niche marketing strategy has been successful which is also reflected in the good occupancy results. Also, a high socio-economic group constitutes now the usual guest profiles whereas before there was no clear profile. The aim to improve service levels was also instrumental in achieving the establishment of a contemporary boutique style property, and a high degree of staff autonomy encouraging interactions with guests and utilising such obtained information as well as a high proportion of full-time staff contributed positively to improve service levels. The staff benefit scheme was said to help retention and the student proportion of staff, mainly casual staff, to be associated with high turnover. Though the connection was not made by the GM, it would seem that this turnover is dysfunctional for the strategy of improving service levels, an implication consistent with the prior statement of a high proportion of full-time staff being desirable for the improvement of service levels.

The first interviewed line manager (LM1) indicated that staff was 80% important to the achievement of organisational objectives in relation to other factors, and did in fact contribute strongly (rating the absolute contribution at four on a five-point

scale). Again, the most central issues are HR-related. The HR function, as opposed to HR policies or initiatives features highly in centrality (see Table 5.7.1).

Table 5.7.1: Domain analysis results LM1 Green

<i>No of links to concepts</i>	<i>Concepts</i>
10	
9	Turnover
8	
7	
6	
5	HR function
4	Training and dev, performance appraisals
3	Staff performance
2	Revenue office objectives, low pay, internal promotion opps, identify problems early, rec and selection and induction
1	Two separate depts reservations and conference & banqueting combined, select more profitable business, skilled staff, casual staff, hotel industry employment, offer more full-time work, problem: much admin work, hire admin person for HR dept concentrate on HRM, training monitoring, labour market competition, saves time for departments, frustration, staff quality, change mindset of people in restaurant to cater for individual guests ... tours, historical budgeting policies
0	Several concepts used as definition parts for other concepts

The context in which HRM had been introduced or changed is discussed first. The previously separate departments reservations and conference and banqueting were combined and the new role of revenue manager created with the aim to increase revenue by selecting more profitable business and to improve average room rate. How HRM relates to these objectives in particular, cannot be seen clearly from the responses or the causal map. The relatively short employment duration of LM1 (i.e. one year) may help explain why the causal map shows fewer concepts and connections than others. However, various HRM effects have been discussed by LM1 and are analysed below.

Direct and indirect effects of HRM policies are considered in the following. A lack of **training and development** (concept 16) contributed to frustration of staff who wanted to deliver good standards, but were unable to do so without appropriate training. Training also increased staff performance. It can be delivered by both traditional on- and off-job programmes and involvement in specific projects. Training monitoring (concept 23) facilitated an early identification of staff-related problems and decisions on actions before problems become too big. Sophisticated

recruitment and selection practices as well as improved induction policies increased staff quality. Though no connection to departmental performance is made, from the fact that 80% of departmental performance was said to depend on staff, it would seem appropriate to assume that there is therefore an indirect link to departmental performance. **Objective setting processes** and monitoring through performance appraisals contributed both to an early identification of staff-related problems and to a reduction of turnover as well as higher staff performance. **Internal promotion** opportunities also reduced turnover. **Staff composition** influenced turnover in three ways (concepts 9, 10, 14): more full-time work and more highly skilled staff were related negatively to turnover whereas a higher proportion of casual staff (as in other departments) was related to higher turnover. As regards **incentives and rewards**, the low pay characteristic to the hotel industry contributed to staff turnover in the hotel in general, albeit in LM1's department there were no problems in that respect. The reasons for the low pay was seen by LM1 in historical budgeting procedures based on a certain staff level for which budgets are set and have to be retrieved.

Further effects were found in relation to the concepts staff turnover and the HR function. **Staff turnover** was increased by a high proportion of casual staff, labour market competition, employment conditions of the hotel industry, in particular the low pay, and reduced by a high proportion of skilled staff, full-time labour, promotion opportunities, training and development and performance appraisals. The involvement of the **HR function** in performance appraisals and training and development helped improve these aspects as well as indirectly improve staff performance. Direct involvement in recruitment and selection improved selection processes which in turn led to higher staff quality needed for achievement of departmental objectives. In addition, the HR function provided advice on employment issues which had time saving effects for the department.

Staff performance was specified as outcome variable Staff performance was influenced by setting new objectives, and particularly performance appraisal and training and development. These two HR practices were themselves influenced by the HR function directly through involvement and support.

The second interviewee at Green (LM2) also places HR- and staff-related concepts very centrally in her cognitive map as the domain analysis results in Table 5.7.2 reveal.

Table 5.7.2: Domain analysis results LM2 Green

<i>No of links to concepts</i>	<i>Concepts</i>
10	
9	Turnover
8	Achievement of objectives
7	
6	Sept 2000: LM2 objective "get it all up and running"
5	
4	Clear objectives, training and development
3	Appraisals, labour market competition, numerical flexibility, focused recruitment and selection ... uncritical recruitment
2	Staffing level, communication, team meetings, hotel ind employment, bad pay, part time students, costs, rise in minimum wage, skills, HR planning/ int promotion opp, professional HR dept ... promoted line manager, strict procedures, commitment
1	Low staff morale, lack of clarity on objectives, previous promotion without training, unsociable hours, set centrally, cannot be changed, continuous recruitment, long-term staff wanting change, demand unpredictabilities, staff quality, investment into HR, attitudes, good service, man support, good team spirit, company takeover, problems hotel operations, straight shifts, bad in bars, staff dislike
0	Several concepts used as definition parts for other concepts

The context in which HRM was introduced or changed is characterised by the start of LM2's assignment in autumn 2000 in the operations manager role. A number of problems became apparent after the role had been vacant for eight months. The problems consisted of both staff issues and operational issues and low customer satisfaction. With the appointment of the new manger, a range of HRM changes was introduced in order to address the problems present. The recent takeover by another company was associated with improved training and the change towards a professionally staffed HR department rather than HRM being administered by a promoted line manager also had positive effects on the development of HR policies.

The so induced HRM changes took place in the following areas: training and development (concepts 12, 46), ER and communication (concepts 14, 15), recruitment and selection (concept 33), objective setting processes (concepts 13, 60), and HR planning and internal promotion (concept 47).

The direct and indirect effects of these HRM policies are discussed in the following. In the area of **training and development**, the previous practice of promotion without training led to a lack of clarity about objectives, i.e. one problematic area in 2000; training and development used as a means “to get it all up and running” had a positive effect on skills which again contributed to the achievement of objectives. The previously uncritical and quantity-oriented **selection approach** was changed towards a focused approach with both improved technique and clear quality specifications of candidates; this resulted in a reduction of the bad staff quality and even a reversal of the trend so that one of the bars is “actually one of the best departments now”. Within the area of **employee relations and communication**, improved communication (concept 14) to and with staff was part of the programme to solve the departmental problems described and in conjunction with team meetings (concept 15) contributed to clear objectives which had a positive impact on achievement of departmental objectives. As part of the **objective setting** processes, appraisals as well as the introductions of strict procedures to be followed were also emphasised more strongly after LM2’s arrival. Strict procedures had a direct impact on achievement of objectives, appraisals had an indirect impact via clear objectives. The importance of objective setting was also emphasised by the fact that a lack of clear objectives was part of the initial problem. HR planning and **internal promotion** reduced turnover, but was disliked, if previous peers became an employee’s boss. Poor monetary **rewards and incentives**, an element of hotel industry employment conditions, influenced staffing levels negatively due to the limited attraction to work in hotels. As it was set centrally, it was argued by LM2 that it cannot be changed on a local level. The rise in minimum wage reduced bad pay and elevated wage levels overall.

Further effects are now discussed. **Staff turnover** made continuous recruitment necessary and caused undesirable costs; it was influenced by a high degree of part-time staff hired due to the need for numerical flexibility, high labour market competition, and the employment conditions of the hotel industry. Increased investment into HR reduced turnover and HR planning and promotion opportunities increased **commitment** and thereby reduced turnover. **Staffing levels** were negatively influenced by both the employment conditions within the hotel industry and the increased labour market competition. As similar forces influenced staffing levels and turnover, there is a undirected connection between the two concepts on the causal map. The **employment conditions in the hotel industry** are associated with a bad reputation, but fast promotion opportunities, according to LM2; difficulties through centrally set bad pay have been somewhat reduced by a rise in the national minimum wage; the introduction of straight shifts have reduced the unsociable hours which had been a negative attribute of hotel employment.

The outcome variable specified was **achievement of objectives**. According to LM2, the achievement of the departmental objectives depended on good service, attitudes, clear objectives, good team spirit, strict procedures and managerial support to staff. Four of these are so-called employee outcomes, partly influenced by HRM changes discussed above.

At Green, staff- and HR-related concepts are among the most central concepts in the causal maps. This fact plus the acknowledgement by LM1 that staff was 80% important (compared to other factors) for departmental goal achievement lent support to H2b. The GM's accounts strongly suggest that the introduction of a new and specialised sales team which can be seen as both an HRM and management structure issue supported the achievement of a new strategy, and the departmental managers indicated that HRM changes directly or indirectly influenced staff performance or departmental performance. HRM changes had a very specific focus on solving particular departmental problems and goals, thereby supporting H2a. There is evidence for H2c in that in particular selection and training improvements contributed to a higher staff quality necessary to achieve objectives. Labour market

issues and the unfavourable employment conditions in the hotel industry influenced negatively the availability of a sufficient number of staff with long tenure, however, this effect was more pronounced in departments with a higher number of casual staff and was seen to be alleviated by a more skilled and full-time positions which provides some support for H2d. Overall, H2 is well supported.

Figure 5.6.1: GM Red Cause Map

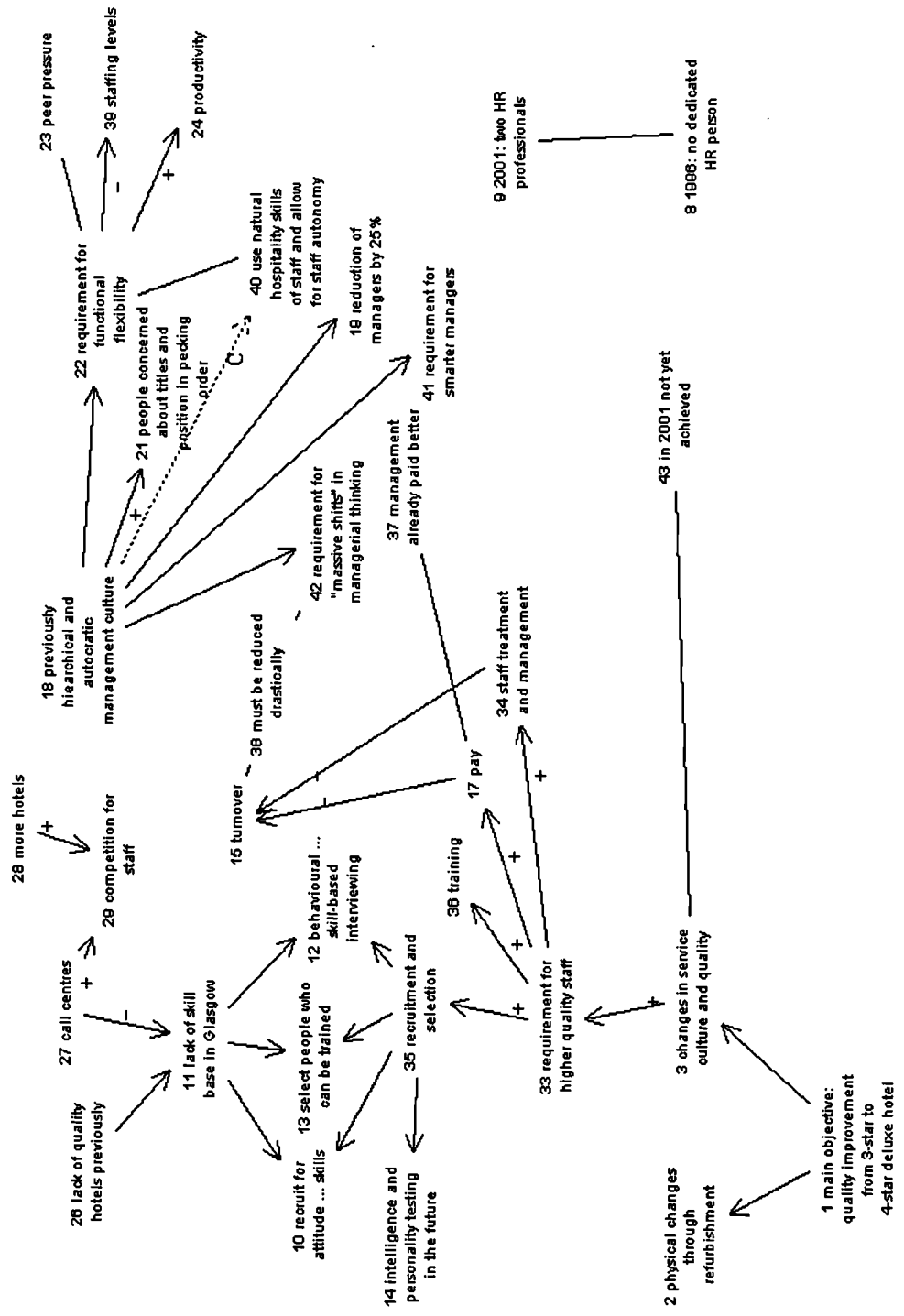


Figure 5.6.2: LM1 Red Cause Map

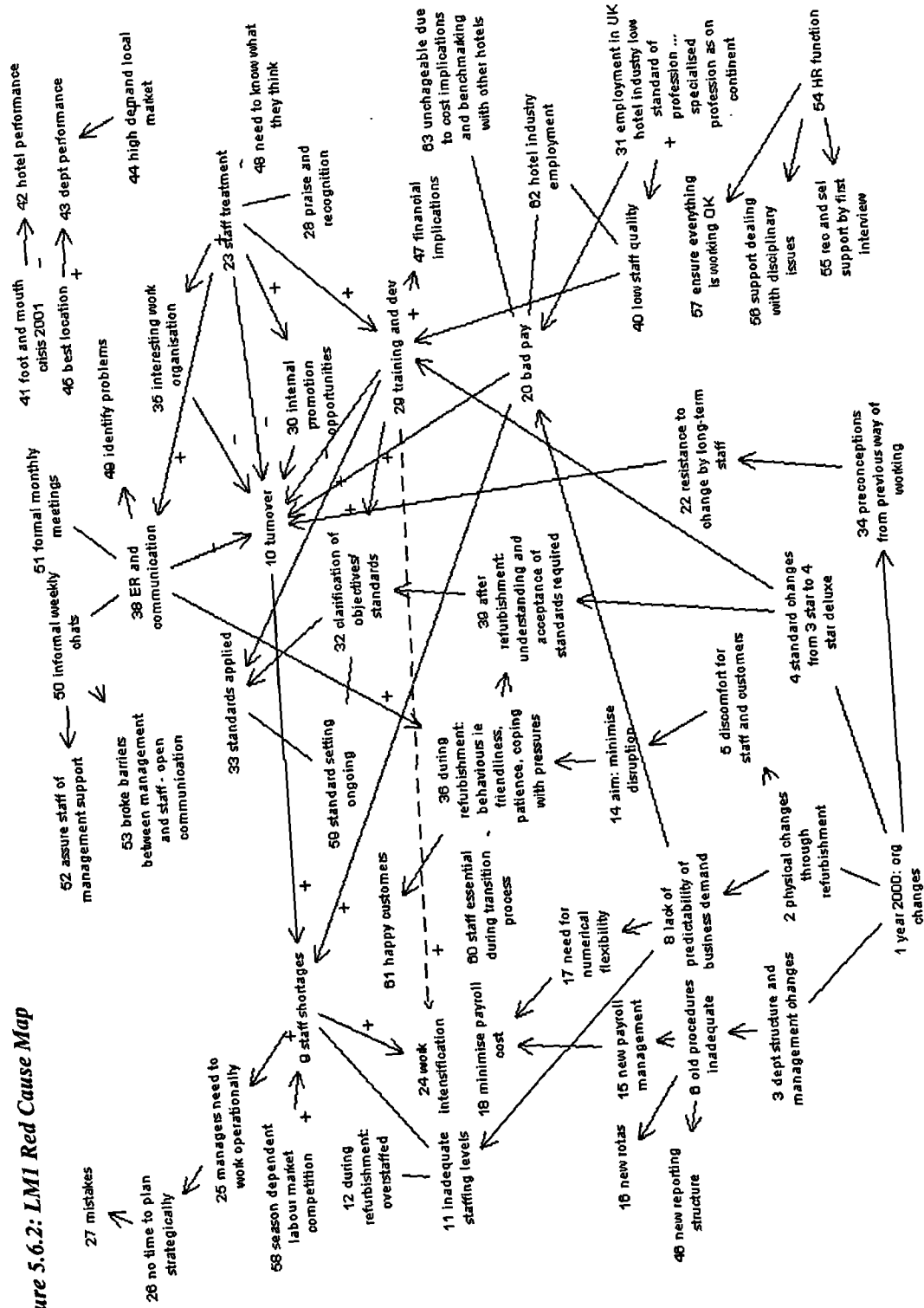
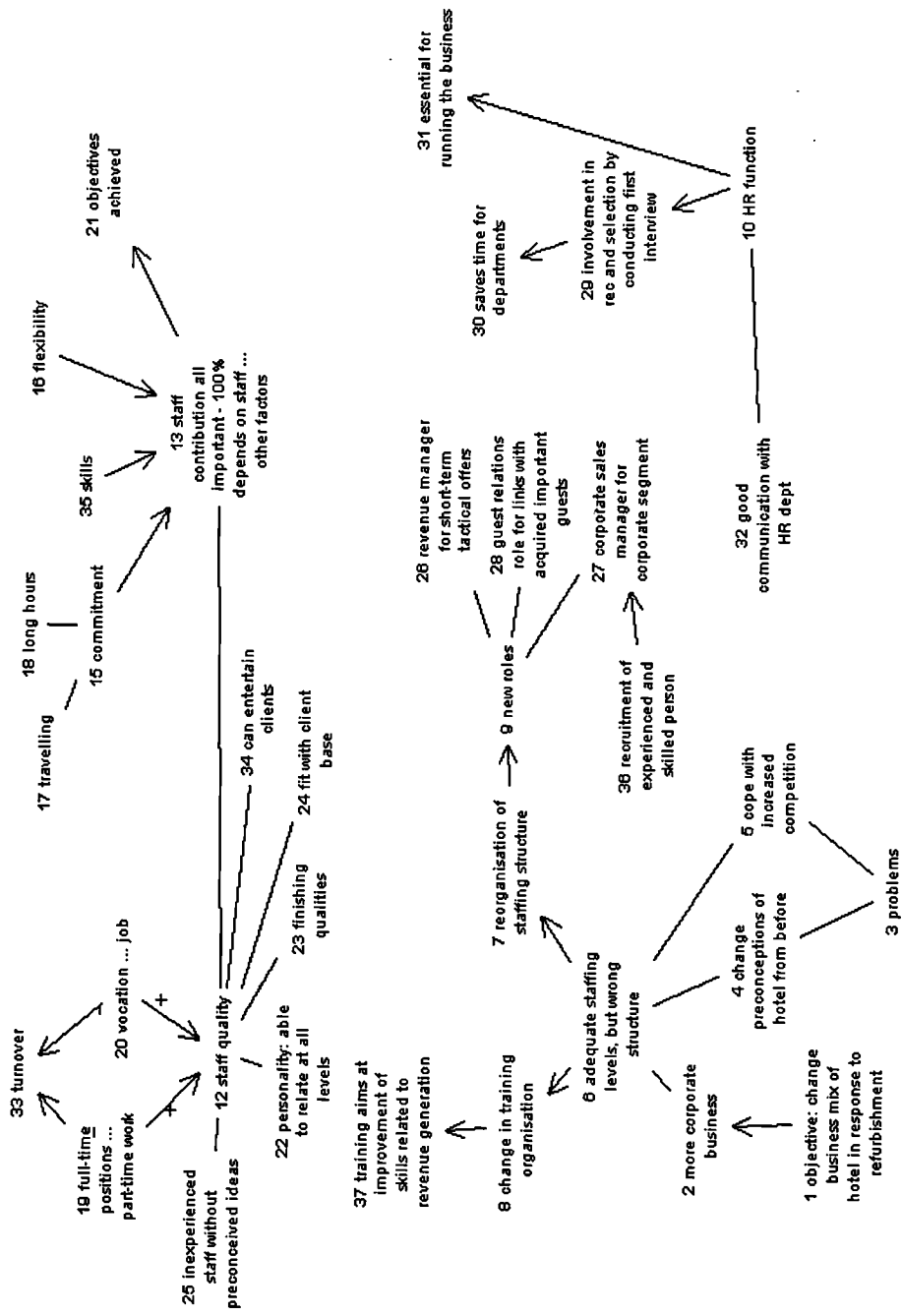


Figure 5.6.3: LM2 Red Cause Map



Analysis Red

According to the general manager (GM), the overall strategy at Red involved an upgrade of the hotel from three- to four-star deluxe standard which required both changes to the physical appearance of the hotel through refurbishment and changes in service culture and quality which had not yet been fully achieved at the time of the interview. Changes in service levels made obvious the requirements for higher quality staff which led to an improvement in a range of HR areas including recruitment, training, pay as well as staff treatment and management. The changes in recruitment in selection involved both changes in the techniques used and changes in criteria sought. According to the GM's perception, the lack of a solid skill base in Glasgow caused by the previous absence of quality hotels and exacerbated by an increased number of call centres contributed to this shortage of staff, even though they had a positive effect on staff quality locally. The call centres and increased number of hotels intensified competition for staff. Pay increases are, according to the GM, necessary to compete successfully for skilled staff and better staff management were introduced to reduce turnover which was regarded as undesirable. The previously hierarchical and autocratic management culture must, according to GM Red, be changed which requires "massive shifts" in managerial thinking. There is now a requirement for fewer, but smarter managers which had already led to the reduction of management staff by 25%. The previous hierarchy is to be replaced by functional flexibility enabling higher productivity and reduced staffing levels. In the previous hierarchical culture, people were concerned about the pecking order, but it is now required (and consistent with functional flexibility) to allow people to use their natural hospitality skills allowing for autonomy. Concerns for HRM have increased which manifested itself in an establishment of an HR department with two professionals, whereas in 1996 there was no dedicated staff for HR.

The first interviewed line manager (LM1), a lounge and meetings & events manager, described that "staff was essential for the whole process" during coping with the disruption caused by refurbishment and upgrading to higher standards. The domain analysis reveals the centrality of HR- and staff related issues with particularly staff

turnover, training and development, staff shortages and staff treatment being highly central to the causal map. The results are summarised in the Table 5.8.1.

Table 5.8.1: Domain analysis results LMI Red

<i>No of links to concepts</i>	<i>Concepts</i>
<i>10</i>	
<i>9</i>	
<i>8</i>	Turnover, training and dev
<i>7</i>	
<i>6</i>	
<i>5</i>	Staff shortages, staff treatment
<i>4</i>	Old procedures inadequate, lack of predictability of business demand, bad pay, ER and communication, during refurbishment: behaviours i.e. friendliness, patience, coping with pressure
<i>3</i>	Clarification of objectives/ standards, after refurbishment: understanding and acceptance of standards required, HR function
<i>2</i>	Aim: minimise disruption, physical changes through refurbishment, standard changes from 3 star to 4 star deluxe, discomfort for staff and customers, new payroll management, need for numerical flexibility, minimise payroll cost, resistance to change by long-term staff, work intensification, managers need to work operationally, no time to plan strategically, internal promotion opportunities, employment in UK hotel industry low standard of profession, standards applied, preconceptions from previous way of working, interesting work organisation, low staff quality, dept performance, informal weekly chats
<i>1</i>	Year 2000: org changes, dept structure and management changes, inadequate staffing levels, new rotas, mistakes, foot and mouth crisis, hotel performance, high demand from local market, best location, new reporting structure, financial implications, identify problems, assure staff of management support, broke barriers between management and staff – open communication, rec and sel support by first interview, support dealing with disciplinary issues, ensure everything is working OK, season dependent labour market competition, happy customers
<i>0</i>	Several concepts used as definition parts for other concepts

HRM changes took place in response to operational problems that arose through disruption from the refurbishment, in conjunction with the upgrade to a four-star hotel in terms of service levels and in order to solve HR-related problems such as low staff quality and turnover. The changes took place in the following areas: employee relations and communication (concepts 38, 50, 51, 52, 53), work organisation (concept 35), staff treatment (concepts 23, 28, 48), internal promotion (concept 30), objective setting (concept 32), and training and development (concept 29).

These HRM policies had the following direct and indirect effects. **Employee relations and communications** activities included both formal monthly meetings

and informal weekly chats to assure staff of management support; this helped break barriers between staff and management and thus contributed to the departmental goal to minimise disruption caused by the refurbishment which involved closed sections and a lack of predictability. ER and communication was also improved by a higher emphasis on better staff treatment. In addition, it increased behaviours of friendliness and patience during the refurbishment process and contributed thus indirectly to customer satisfaction. Interesting **work organisation** including “new things in order to learn” reduced turnover. **Staff treatment** should be guided by praise and recognition and a managerial desire to know what staff think, according to LM1. Such staff treatment, in LM1’ view, can instigate interesting work organisation, reduce turnover, improve training and development and internal promotion opportunities. Opportunities for **internal promotion** reduced turnover. Clearer **objective-setting** processes were needed as the upgrading from three-star to four-star standard involved new and higher standards which had to be understood and accepted by staff. The objective-setting process led to the application of these standards, a process which was still ongoing at the time of the interview. Training initiatives were increased due to a response to low staff quality which needed to be improved for the new standards; it contributed to the clarification of objectives and standards and to the successful application of standards. Regarding the area of **rewards**, the low pay for staff in the hotel industry is, according to LM1, influenced by a low degree of professional standards in the UK as opposed to the continent, LM1’s origin, which is seen as increasing turnover and staff shortages. However, it is seen as unchangeable due to high costs involved and pay benchmarking with other hotels which needs to be adhered to. Despite this, positive employee treatment was regarded as a way to alleviate problems caused by low pay.

Further effects included those on **staff shortages** which are influenced by a seasonal labour market, staff turnover and bad pay; consequences of staff shortages were that managers needed to work operationally rather than having time to plan strategically which lead to mistakes; work intensification also resulted. **Staff turnover** was increased by bad pay and resistance to change by long-term staff unwilling to learn new skills and adapt to changed standards; it was reduced by HR practices like

interesting work organisation, good staff treatment, internal promotion opportunities, training and development, and ER and communication. Turnover exacerbated staff shortages. **Low staff quality** was an effect of bad pay and the low standard of professionalism in the UK hotel industry as opposed to the continent. **Work intensification** was influenced by staff shortages and indirectly influenced by training; though counter-intuitive, the reason for this was located in training being necessary due to low staff quality. In conjunction with staff shortages, and managers having to both train and work operationally, work intensification resulted.

Outcome variables specified were hotel performance, departmental performance, new standards, and minimised disruption during refurbishment. The **hotel's performance** suffered somewhat due to the influence of the foot and mouth crisis in 2001. Due to high demand in the local market and the best location in the city (according to LM1) **departmental performance** was influenced positively. **New standards** could be applied due to a training and development and objective-setting processes. **Minimised disruption during refurbishment** had been an important idiosyncratic goal and was helped by employees displaying friendly and patient behaviours and the ability to cope with the pressures. These behaviours had been influenced by ER and communication activities, mostly informal ones, and it resulted in customer satisfaction despite adverse conditions.

The second line manager interviewed (LM2), a sales manager, regarded staff importance for sales as different from other functions in that "In a selling position, it's a 100% people." It was emphasised that "the problems wouldn't have been staffing problems." Despite this statement, staff contribution was seen as central and explicitly very important.

Table 5.8.2: Domain analysis results LM2 Red cause map

<i>No of links to concepts</i>	<i>Concepts</i>
<i>10</i>	
<i>9</i>	
<i>8</i>	
<i>7</i>	
<i>6</i>	
<i>5</i>	
<i>4</i>	Staff contribution all important – 100% depends on staff
<i>3</i>	
<i>2</i>	Adequate staffing levels, but wrong structure, reorganization of staffing structure, change in training organisation, HR function, staff quality, full-time position ... part-time work, vocation ... job, involvement in rec and selection by conducting first interview, turnover
<i>1</i>	Objective: change business mix, more corporate business, new roles, commitment, flexibility, objectives achieved, corporate sales manager for corporate segment, saves time for departments, essential for running the business, skills, recruitment of experienced and skilled person, training aims at improvement of skills related to revenue generation
<i>0</i>	Several concepts used as definition parts for other concepts

In order to resolve issues arising from the two waves of refurbishment in 1995 and 1999 described by LM2, a change of preconceptions was needed, increased competition had to be coped with and an objective was set to change the business mix in response to the refurbishment towards more corporate business. Staffing levels, but not the staffing structure, were adequate to progress the department. Hence, changes to the structure involving new roles were made. These roles focused on specific aspects of the sales function. In order to support the strategic objective to increase corporate business a corporate sales manager role was created and an individual with skills and experience selected. Training was another area where changes were made. The areas with changes were thus staff structure/ work organisation (concepts 7, 9, 26, 27, 28, 36) and training (concepts 8, 37).

These HRM initiatives had the following effects. The **staffing structure** was altered in response to the changes. Three new roles were introduced, i.e. a revenue manager for short-term tactical offers, a guest relations role to maintain and intensify links with important guests, and a corporate sales manager. An experienced and skilled person was recruited for this role to support the strategic objective to concentrate more on corporate business. **Training**, previously less focused, changed in the organisation towards being more oriented towards promoting revenue generation by

tailoring courses directly to skills which influence profitability such as upselling, key behavioural skills, service excellence “things that you can actually trace down to the bottom line, whereas five years ago it didn’t really relate quite so much to making money”.

Further intermediate effects are summarised below. The staff contribution, 100% important, was influenced by skills, commitment and flexibility on the part of staff. Turnover was not regarded as problematic in the sales department as the positions there were all full-time and staff employed were seen as viewing their work as a vocation rather than a job. **Staff quality** was seen as being influenced by staff composition. Full-time positions and work as vocation had positive effects on staff quality whose dimensions are specified in the causal map. **HR as a function** is involved in recruitment and selection which saves time for departments spent on recruitment; the function was regarded as essential “you couldn’t run anything without the human resources department” (LM2).

The outcome concept specified was the **achievement of departmental objectives**. The objectives (of moving towards more corporate business and to cope with increased competition) have been achieved with staff being the sole contributing factor; although not made by the respondent directly, a link could also be drawn from change in training organisation to staff contribution or skills.

At Red, all respondents placed a high emphasis on staff contribution as most important factor for achieving organisational objectives and HR-related as well as staff issues are central in the causal maps, however, somewhat less so for LM2. Therefore, H2b is supported. HRM initiatives were deployed in a specific way to support organisational goals for all respondents at Red which lends support to H2a. HRM policies had effects on employee outcomes which in turn affect specific goals or affect goal achievement directly. There is evidence that unhelpful staff characteristics (such as low staff quality) could be changed by HR techniques and that a lack of certain HR policies, i.e. the poor wages had negative influences on employee outcomes such as staff shortages and turnover. H2c and H2d thus received

some support. A lack of staff could be reduced by better pay, better staff treatment, and a shift towards more full-time or skilled positions with staff understanding their work as vocation rather than a job. Overall, H2 receives good support.

Analysis Yellow

As only one line manager could be interviewed at Yellow, case Yellow is represented by the responses of the sales manager, the marketing and sales director (LM Yellow). The sales team was responsible for the sales of client hotels being part of the franchise and recently started to diversify into sales training and consultancy offered to the market in general. Staff was regarded as the most important factor for achieving objectives. Recruitment, training and performance management issues are the most central concepts in the causal map.

Table 5.9: Domain analysis results LM Yellow

<i>No of links to concepts</i>	<i>Concepts</i>
<i>10</i>	
<i>9</i>	
<i>8</i>	
<i>7</i>	
<i>6</i>	
<i>5</i>	Recruitment of previous colleagues from large organisation
<i>4</i>	Recruitment of new team, HR dept newly created Feb 2000
<i>3</i>	Attempt to change and develop staff, forced to reduce headcount by one staff, training and development, dismissal of admin person
<i>2</i>	Objectives: increase sales, staff left, clear terms and conditions, loss of money, recruitment of one admin person, multi-skilling, sel interview failed to identify low competence, performance appraisal
<i>1</i>	Problem: lack of staff motivation, focus and accountability, work organisation, loss of important client account, strengths in different market segments, get to know other heads of department, company taken seriously, IIP, helps sell company to clients, better sales for client hotels and better quality sales achieved, labour market: shortage of skilled sales staff, mature staff, no need to assert authority, life style change, improved performance with new team, work intensification
<i>0</i>	Several concepts used as definition parts for other concepts

HRM changes became necessary at Yellow in the context of both problems with staff and the business objective to increase sales. Also, the newly created HR department had a strong effect on the development and introduction of HRM practices. Changes took place in the areas of recruitment and selection (concepts 9, 14, 33, 38), training and development (concepts 4, 20, 23), performance appraisal (concept 19), work organisation (concept 10), and terms and conditions (concept 11).

These HRM initiatives had a range of effects. **Recruitment and selection** practices led to several outcomes. After having unsuccessfully tried to change and develop

staff in order to increase sales by means of a motivated, accountable and focused sales team, staff disliking the changes left for more highly paid work elsewhere; a new team had to be recruited, and LM Yellow's previous colleagues, all from a large organisation, were recruited as they wanted a life-style change and were prepared to work for a smaller organisation allowing for a better balanced family- and work-life. As the staff were mature and experienced, there was no need to assert authority, according to the respondent. An administrative employee not previously known to LM Yellow was also recruited, but turned out to be incompetent. The incompetence was not identified during the selection interview so that the person needed to be dismissed eventually. A later opportunity arising from a lost client account, loss of money and thus forced reduction of headcount was used to dismiss this administrative employee. **Training and development** was mostly informal and unrecorded and contributed to multi-skilling; for the respondent it was important to receive training in performance appraisal; it also helped to get to know other heads of department in the hotels.

Performance appraisal was and is important for the company "to be taken seriously" as a company, according to LM Yellow. **Work organisation** became oriented towards task variety and discretion and incorporated predictable and family-friendly hours which was important for LM Yellow's previous colleagues who left a large organisation to join a smaller one. Clear **terms and conditions** were essential for the acquisition and employment of quality staff, in particular those used to large organisations. **Investors in People (IIP)** "helps me to go out and sell the company to hotels". The newly created **HR department** (February 2000) strongly influenced the development and establishment of HR policies seen as beneficial such as training and development, performance appraisal as well as clear terms and conditions. When the administrative assistant had to be made redundant, the HR manager also provided valuable support. The HR department's contribution is rated very highly.

Further concepts involved in HRM effectiveness are briefly summarised. Experienced staff previously employed at a large organisation wanting a **life style change** could be recruited. The life style change involved a need for a better balance

between work- and family-life, and **work organisation** was arranged accordingly. The employees brought with them strengths in different market segments; being a small team, **multi-skilling** was regarded as essential by the respondent; this requirement is supported by training on- and off-job, mostly informal and unrecorded.

Outcome concepts specified were client acquisition, improved team performance, and sales improvement in terms of quality and quantity. IIP can help sell the hotel and hence can help improve **client acquisition**, according to the manager. **Team performance** improved following the recruitment of an experienced sales team known to the respondent. The objective to **increase sales** has been achieved and also a better quality of sales has been delivered to client hotels; the company started to diversify into sales training and consultancy.

Staff were regarded as central by LM Yellow for the achievement of organisational objectives, and HR- as well as staff-related concepts are amongst the most central in the causal map, supporting H2b. Informal training programmes supported multi-skilling, a departmental objective, and the recruitment of an experienced sales team with low hierarchy previously known to the respondent also was instrumental in achieving the objective of increasing sales and to overcome the personnel problem of low staff motivation, a lack of focus and accountability, so that there is support for H2a, an alignment of HRM choices with strategic objectives. Despite the shortages of quality sales staff in Scotland described by LM Yellow, a stable, experienced and mature sales team could be recruited and could be convinced to leave a large organisation. This choice was made because of the preference for life-style changes which accommodated by Yellow. The establishment of a professional HR department in 2000 influenced the establishment of policies required to acquire the staff needed. H2c and H2d receive thus support also so that overall there is support for H2.

Summary

Evidence related to H2 is summarised to conclude Chapter 5. Several tables illustrate the key issues. Table 5.10 summarises the conditions under which HRM was deployed, changed or intensified. Table 5.11 summarises data on the role of the HR function before organisational and departmental strategies, and relative staff contribution as well as the five most central concepts of line managers' causal maps are presented in Table 5.12. Table 5.13 compiles data on changes in HRM areas as identified from the maps. Table 5.14 summarises direct effects of HRM as seen by line managers, and Table 5.15 progresses to observe other effects mediating the connections between HRM and performance. Finally, Table 5.16 compiles data on concepts leading to performance based on the idiosyncratic performance concepts used by the line managers. As illustrated by the compilation in Table 5.10, HRM was intensified after new managers had been hired, new goals established or operational problems relating to staff issues were encountered. The reference to HRM within these contexts implies that HRM was seen as a useful tool to solve problems and achieve objectives.

Table 5.10: Context for HRM changes or increased deployment

	Context for HRM change or increased deployment
Blue	LM1: <ul style="list-style-type: none"> • lack of HRM application dysfunctional in past • personnel problems i.e. low staff quality and lowly qualified management • integration of departments and new objectives • HRM changes necessary to overcome problems and achieve targets LM2: <ul style="list-style-type: none"> • staff-related problems with complacent attitude and low service standards
Green	LM1: <ul style="list-style-type: none"> • creation of a new departmental structure by integrating departments LM2: <ul style="list-style-type: none"> • low morale, operational problems, aim to improve service • HRM changes followed the recruitment of a new operations manager
Red	LM1: <ul style="list-style-type: none"> • disruption of operations during refurbishment • upgrade to higher standards • low staff quality and turnover problematic LM2: <ul style="list-style-type: none"> • changed strategy required changed preconceptions • coping with intensified competition • change business mix
Yellow	<ul style="list-style-type: none"> • staff problems with low motivation and objectives to increase sales • changes needed to achieve objectives

The role of the HR function (see Table 5.11) was not seen as central by most respondents, however, there is some evidence for a closer involvement in delivering HRM in some cases. In-house HR was largely administratively oriented, but provided support for screening candidates and operational issues such as dismissals with increasing significance due to changing legislation. Regional and corporate HR provided legal advice and became more involved in training delivery. In the seven causal maps built from line manager responses, three place the HR department in a more central role whereby the function was directly involved in delivering or developing HR practices.

Table 5.11: Role of the HRM function

	Role of the HR function
Blue	<ul style="list-style-type: none"> • supporting overall strategy to improve service by greater resources and higher specialisation • importance increased by legal changes • helps reduce negative financial implications by preventing law violations through advice • provides non-obligatory guidelines which should be emphasised more for inexperienced managers • mostly administrative role in-house
Green	<ul style="list-style-type: none"> • high importance by LM1 (central concept) • saves time for departments, supports HRM delivery in training, performance appraisals and promotion opportunities • too much administrative duties prevent desirable greater involvement • supports sickness management and legal advice
Red	<ul style="list-style-type: none"> • ensures “that everything is working OK” • support dealing with disciplinary cases • provide good reports about candidates • saves time for the departments • essential for running the business (LM2)
Yellow	<ul style="list-style-type: none"> • introduced important policies (training, performance appraisals, terms and conditions) • helped with dismissal

Table 5.12 provides an overview of the strategic orientations of the hotels and departments. A recurring theme consists in improving service levels, reflecting the potential for increasing room rates in the higher market segment. The departmental strategies were closely tied to the overall objectives and aim at additional, very department-specific improvements and solution of problems. Staff contribution was rated generally as the most important factor for the achievement of goals, and staff-related or HR-related issues feature consequently amongst the most central in the

individual causal maps, thereby supporting assertions about the importance of staff. Turnover, staff shortages and training are frequently recurring central concepts.

Table 5.12: Summary of strategic objectives, staff contribution and centrality of concepts

	Blue	Green	Red	Yellow
Organisational strategy	<ul style="list-style-type: none"> • solve problems associated with sales organisation • improve service levels • improve operating efficiency • achieve extended performance criteria 	<ul style="list-style-type: none"> • successfully establish niche marketing strategy • continuously improve service levels 	<ul style="list-style-type: none"> • successfully upgrade from 3 to 4 star hotel • change service culture and quality after having finished physical changes through refurbishment 	
Departmental objectives	<ul style="list-style-type: none"> • LM1: increase profitability • LM1: improve service levels • LM1: integrate F&B depts • LM1: reduce turnover • LM2: improve service levels • LM2: awareness of sales strategy and standards 	<ul style="list-style-type: none"> • LM1: increase revenue • LM2: solve operational problems, i.e. improve staff morale, improve service, establish clear objectives for staff 	<ul style="list-style-type: none"> • LM1: minimise disruption during refurbishment • LM1: create understanding and acceptance of new standards • LM2: change business mix in response to refurbishment to more corporate business 	<p>LM Yellow:</p> <ul style="list-style-type: none"> • increase sales • solve problems of lack of motivation, focus and accountability of staff
Relative staff importance	<ul style="list-style-type: none"> • essential (all respondents) 	<ul style="list-style-type: none"> • essential (LM1 only) 	<ul style="list-style-type: none"> • essential (all respondents) 	<ul style="list-style-type: none"> • staff most important factor
5 most central concepts	<p>LM1:</p> <ul style="list-style-type: none"> • change in man structure – creation of F&B man role • staff turnover • commitment • staff shortages • work attitudes <p>LM2:</p> <ul style="list-style-type: none"> • turnover • shortage of quality staff • suboptimal profitability • introduction of changes to staff • patience to recruit right people rather than hiring first applicants 	<p>LM1:</p> <ul style="list-style-type: none"> • turnover • HR function • training and development • performance appraisals • staff performance <p>LM2:</p> <ul style="list-style-type: none"> • turnover • achievement of objectives • Sept. 2000 objective “get it all up and running” • clear objectives • training and development 	<p>LM1:</p> <ul style="list-style-type: none"> • turnover • training and development • staff shortages • staff treatment • old procedures inadequate <p>LM2:</p> <ul style="list-style-type: none"> • staff contribution all important – 100% staff • adequate staffing levels, but wrong structure • reorganisation of staffing structure • change in training org • HR function 	<ul style="list-style-type: none"> • recruitment of colleagues from large organisation • recruitment of new team • HR dept newly created 2000 • attempt to change and develop staff • training and development

Table 5.13: Changes in HRM as seen by line managers

	Blue	Green	Red	Yellow
Work organisation, structure	LM1, LM2		LM1, LM2	LM
Training and development	LM1, LM2	LM2	LM1, LM2	LM
Recruitment and selection	LM1, LM2	LM2		LM
ER, staff treatment, communication	LM1, LM2	LM2	LM1	
Staff autonomy	LM1, LM2			
Objective setting – performance appraisal	LM1, LM2	LM2	LM1	LM
Internal promotion, HR planning	LM1, LM2	LM2	LM1	
Staff composition	LM1, LM2			
Incentives	LM2			
Terms and conditions				LM
Comments:		LM1 no changes in HRM emphasised, but effects of HRM only		

Table 5.14: HRM effects

	Blue	Green	Red	Yellow
Work organisation	<ul style="list-style-type: none"> - difficulties coping with competition (common projects) + functional flexibility (cross-dept. staff exchanges) - turnover (cross-dept. staff exchanges) 		<ul style="list-style-type: none"> - turnover (interesting work) + supports strategy (introduction of new roles) 	<ul style="list-style-type: none"> + can accommodate employees preferences for balancing work and family life leaving large organisations
Training and development	<ul style="list-style-type: none"> + staff training (managerial training) + overall skill levels + profitability (training in financial skills) - turnover + staff acquisition (staff introduce friends) 	<ul style="list-style-type: none"> I frustration of motivated staff I clarity about objectives + skills + staff performance + identification of staff problems (training monitoring) 	<ul style="list-style-type: none"> + clarification of new standards + clarification of objectives + successful application of standards + skills relevant for revenue generation 	<ul style="list-style-type: none"> + multi-skilling
Recruitment and selection	<ul style="list-style-type: none"> + staff quality (+ staff shortages) I staff shortages I turnover + team stability 	<ul style="list-style-type: none"> + staff quality 		<ul style="list-style-type: none"> I bad staff quality + recruitment of suitable team
ER, staff treatment, communication	<ul style="list-style-type: none"> - turnover + commitment + internal promotion + cross-dept staff moves + staff training 	<ul style="list-style-type: none"> + clarity of objectives 	<ul style="list-style-type: none"> + breaks barriers between managers and staff (informal meetings) + behaviours of friendliness and patience needed during refurbishment process + interesting work - turnover + training and development + internal promotion 	

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

Table 5.14: HRM effects continued

	Blue	Green	Red	Yellow
Staff autonomy	+ commitment / culture of equality / peer monitoring + empower staff make own decisions			
Objective setting and performance appraisal	+ attitudes + commitment + understanding of strategy + awareness of required standards	+ early identification of staff problems - turnover + staff performance + achievement of objectives (strict procedures)	+ application of new standards	+ company taken seriously by applicants from large organisations
Internal promotion	+ attitudes + commitment + staff acquisition (staff introduce friends) - turnover + jealousy	- turnover + jealousy	- turnover	
Staff composition	+ commitment (full-time work) + turnover (casual staff)	+ turnover (casual staff) - turnover (skilled, full-time staff)		
Incentives/ rewards	I turnover + positive collegial competitiveness	I turnover I staffing levels	I turnover I staff shortages	
Terms and conditions				+ acquisition of quality staff from large organisations + marketing of company
IIP				

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

Table 5.15: Other effects – key intermediate variables

	Blue	Green	Red	Yellow
Staff composition	+ commitment (ft) + attitudes (ft) + turnover (casual staff)	+ turnover (casual staff) + numerical flexibility (part-time)		
Influenced by	+ numerical flexibility (casual)			
Turnover	- return in investment in training + financial costs + undesirable staff leave voluntarily + planning difficulties + development difficulties	+ continuous recruitment + financial costs / staff shortages	+ staff shortages	
Influenced by	- commitment - attitudes - staff treatment and ER - training provision - cross-dept staff moves - promotion opportunities + work intensification + bad pay + casual staff	- full-time staff - promotion - training and development - performance appraisals - investment in HR - commitment - skilled staff + casual staff + labour market competition + hotel industry employment	+ bad pay + resistance to change by long-term staff - interesting work organisation - good staff treatment - internal promotion - training and development - ER and communication	

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

Table 5.15: Other effects – key intermediate variables continued

	Blue	Green	Red	Yellow
Attitudes	- turnover + service quality	+ achievement of objectives		
<i>Influenced by</i>	- staff composition (casual) + clear objectives + internal promotion opportunities			
Hotel industry terms and conditions	/ bad pay / long hours / hard labour	/ bad reputation / good promotion opportunities		
<i>Influenced by</i>			+ low level of professionalism in UK hotel industry	
Shortage of staff	+ work intensification + stress	/ turnover	+ work intensification + managers need to work operationally	
<i>Influenced by</i>	+ labour market competition + hotel industry employment - staff introducing friends	+ labour market competition + hotel industry employment	+ seasonal labour market + turnover + bad pay	
Staff quality			• requires training	
<i>Influenced by</i>	- improved rec and sel (low) + hotel industry employment (low) + focused recruitment (high)		+ bad pay (low) + low standard of professionalism in UK hotels (low) + vocation rather than job (high) + full-time work (high)	

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

Table 5.15: Other effects – key intermediate variables continued

	Blue	Green	Red	Yellow
Work intensification				
<i>Influenced by</i>	+ staff turnover + <i>shortage of staff</i>		+ <i>shortage of staff</i>	
Staff contribution/ performance				
<i>Influenced by</i>		+ <i>performance appraisals</i> + <i>training and development</i>	+ <i>skills</i> + <i>commitment</i> + <i>flexibility</i>	
Multi-skilling				
<i>Influenced by</i>				+ <i>training</i> + <i>team with different strengths</i>
Commitment				
	- turnover + <i>undesirable staff leave</i> voluntarily	- <i>turnover</i>	+ <i>staff contribution</i> / <i>work long hours</i> / <i>prepared to travel</i>	
<i>Influenced by</i>	- <i>casual staff</i> + <i>clarify objectives</i> + <i>staff treatment and ER</i> + <i>internal promotion</i> + <i>staff autonomy</i>	+ <i>HR planning/ internal</i> <i>promotion</i>		

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

Table 5.16: Outcome variables

	Blue	Green	Red	Yellow
Profitability	+ financial controlling skills - lack of strategy awareness			
Service quality	+ attitudes + staff training			
Turnover	- commitment - work attitudes - staff treatment and ER + casual staff			
Reception desk objectives	+ objective setting processes / work atmosphere with motivation, support, job satisfaction / autonomy			
Achievement of departmental objectives		+ service + attitudes + clear objectives + team spirit + strict procedures + managerial support for staff		
Hotel performance			- foot and mouth crisis	
Departmental performance			+ good location + high demand in local market + high staff contribution	+ acquisition of skilled sales team
New standards			+ training and development + objective-setting processes	
Minimised disruption during refurbishment			+ friendly and patient employee behaviours	
Client acquisition				+ IIP

Signs: +: is increased (by specific practice); -: is reduced (by specific practice); /: is associated with, i.e. no direction; I: inverse relation, e.g. less incentives lead to more turnover

After having found support for the hypotheses on a case-by-case basis, the tables presented above strongly support the assertion that the precondition for HRM to be effective is fulfilled as staff were seen as most relevant factor for goal achievement by respondents and staff-related issues are among the most central concepts in the respondents' causal maps. HRM application can have a range of effects, according to reports by line managers. The line managers interviewed did agree on certain effects, but due to the idiosyncratic problems and deployment of HRM it cannot come as a surprise that this agreement is limited. Below the effects which were perceived by at least two different cases are summarised in Tables 5.17 and 5.18 for the three themes HR effects, intermediate linkages, and effects on performance are discussed after presenting these tables. There was agreement between at least two cases that work organisation reduced turnover, training and development enhanced skill levels, sophisticated recruitment and selection policies enhanced staff quality, employee relations, staff treatment and communication reduced turnover, objective setting processes contributed to the achievement of standards and objectives, internal promotion reduced turnover, but also lead to jealousy; a staff composition characterised by a high proportion of casual staff was seen as causing high turnover, and the lack of appropriate incentives and rewards (i.e. bad pay) as contributing factors to turnover and staff shortages. The central HR concepts and their effects are summarised in Table 5.17.

Table 5.17 Central HR policy concepts and their effects

HR policy concepts	Effects on
Work organisation	- turnover (two cases)
Training and development	+ skill levels (three cases)
Recruitment and selection	+ staff quality (three cases)
ER, staff treatment, communication	- turnover (two cases)
Objective setting and performance appraisal	+ achievement of standards/ objectives (three cases)
Internal promotion	- turnover (three cases) + jealousy (two cases)
Staff composition	+ turnover (casual staff, two cases)
Incentives/ rewards	I turnover (three cases) I staff shortages (two cases)

Agreement in regard to key intermediate variables refers to four central concepts, i.e. staff composition, turnover, staff shortages and commitment. Staff composition characterised by a high proportion of part-time and casual staff was seen as leading

to turnover and is itself influenced by the need for numerical flexibility within the industry on the causal maps. According to the linkages on the maps, turnover lead to financial costs and staffing difficulties and was increased by bad pay and the discussed type of staff composition, and reduced by commitment, training, promotion opportunities, and concern for employee relations, communication and staff treatment. Staff shortages lead to work intensification and were induced by the employment characteristics of the hotel industry. Commitment was functional in reducing turnover, and could be increased by offering internal promotion opportunities. The central intermediate effects are summarised in Table 5.18.

Table 5.18 Central intermediate concepts and effects

HR policy concepts	Effects on
Staff composition	+ turnover (two cases)
<i>Influenced by</i>	+ <i>need for numerical flexibility (two cases)</i>
Turnover	+ financial costs (two cases) + staffing difficulties (three cases – summarising staff shortages, planning difficulties, development difficulties)
<i>Influenced by</i>	+ <i>bad pay (three cases)</i> + <i>staff composition with high casual and part-proportion (two cases)</i> - <i>commitment (two cases)</i> - <i>training (three cases)</i> - <i>promotion opportunities (three cases)</i> - <i>employee relations, communication and staff treatment (two cases)</i>
Staff shortages	+ work intensification (two cases)
<i>Influenced by</i>	+ <i>hotel industry employment characteristics (three cases)</i>
Commitment	- turnover (two cases)
<i>Influenced by</i>	+ <i>internal promotion (two cases)</i>

Disregarding the distinctions between the different outcome concepts between the cases and summarising all outcome concepts allows for an analysis of the degree of agreement between the cases in regard to concepts influencing their idiosyncratic objectives. Those concepts with agreements between at least two cases were attitudes (two cases), clear objectives (three cases), training provision (two cases) and employee skills (two cases). Of the nine idiosyncratic outcome concepts at Blue, all were HR related, whereby four referred to HR policies directly and five to HR outcomes. At Green, three of the six outcome concepts were HR policies whereas the others could be classified as behavioural HR outcomes. At Red, the picture was

somewhat different. Of the seven outcome concepts, two related to HR policies, two to HR outcomes, and three to external market conditions. At Yellow, both concepts were HR related.

Therefore, there was good agreement between the respondents from different hotels that work organisation (cross-departmental staff moves and an interesting job) reduced turnover, training provision improved skill levels, and better recruitment and selection techniques had the potential to enhance staff quality. Based on the analysis of cause maps, a greater focus on employee relations, good staff treatment and communication with staff helped reduce turnover. Objective setting promoted the achievement of standards and objectives. Internal promotion reduced turnover, but also lead to jealousy. Staff composition with a high reliance on casual staff also increased turnover as did the absence of adequate incentives and rewards which also influenced staff shortages. Turnover had been identified as a central problematic issue by HR managers and was described as increasingly being targetted. Line manager responses revealed that turnover lead to financial costs and staff shortages. According to the causal maps, turnover could be reduced by commitment, promotion opportunities, good staff treatment/ ER and communication as well as training provision, i.e. HRM policies or policy outcomes, i.e. commitment. Commitment itself could be increased by providing internal promotion opportunities to staff. Turnover was increased by a high proportion of casual staff and the unfavourable employment conditions in the hotel industry, particularly bad pay. The achievement of idiosyncratic performance concepts was predominantly related to HRM, either in the form of HRM policies or HR outcomes which were shown to be influenced by HRM policies.

In addition to these agreed effects, there was a range of idiosyncratic effects in each organisation as summarised in the tables on HRM effects (Table 5.14), key intermediate effects (Table 5.15), and performance (Table 5.16). The outcome variables specified by the different line managers naturally display little or no agreement. This illustrates that despite the common theme of improving service levels on an organisational level, as revealed through interviews with general

managers, the idiosyncratic problems departments face can be highly different, and it is this difference which implies a different approach to and utilisation of HRM as illustrated by the effects idiosyncratic to a particular case. Both in regard to idiosyncratic effects and effects with agreements between cases, there is strong support for H2 predicting a causal path from HRM to performance.

6. Conclusions

The concluding chapter of a doctoral thesis can be described in analogy to a puzzle (Perry 1994). In Chapters 2 and 3, research issues relating to the HRM-performance question were identified by reviewing theoretical and prior empirical research in the field, thereby illustrating the state of the puzzle prior to this research. By means of ‘observations’ and ‘research implications’, missing pieces were identified and it was explained that my research would focus on the most relevant issues, i.e. those particular pieces most likely to allow a better impression of the whole picture hidden in the puzzle, even though some pieces might still be missing. Chapter 4 explained which methodology was adopted to hunt for these pieces and Chapter 5 described which elements were found. This chapter goes one step further by returning to the initial puzzle, referring to its state prior to my research and to explain how the findings of my own research might be used as elements to complete the picture or, more realistically, a relevant part of it.

This thesis examined the processes through which HRM contributes to organisational performance by investigating two hypotheses as points of departure. Despite a wealth of research, it was noted in recent research that the “exploration of the HRM-performance link provides one of the major current challenges in the field of HRM” (Guest 2001, p. 1104). Truss (2001, p. 1121) reaches a similar conclusion: “Our understanding of the way in which human resource management (HRM) is linked to organizational performance is still limited, despite recent advances that use a quantitative approach to argue for a strong positive relationship between ‘High Performance Work Practices’ and firm financial performance.” Hence, the findings of this study promise to be highly topical. In the following, the contributions and limitations of the present study are discussed. This is followed by a concluding section on possible directions for future research.

6.1 Contributions

To evaluate the contributions made by this research, it is necessary to refer back to Chapters 2 and 3 which jointly established a fundament on which the present study was based. Chapter 2 discussed arguments related to HRM and how it can contribute to organisational performance. An initial overview provided a clarification on how the concepts HRM and performance are used in the literature. HRM is understood as an input with a positive influence on the output performance. The subsequent discussion presented theoretical perspectives on the 'black box', i.e. the processes by which HRM can contribute to performance. According to the *strategic perspective*, HRM contributes to performance through its alignment with business strategy or through application to particular employee groups central to achieving strategic objectives. The *HRM logic* holds that advanced HRM practices affect employee behaviours which in turn influence performance. The HRM logic is critiqued by the *Labour Process logic* which presents an alternative to the optimistic HRM models. The Resource Based View of the firm (RBV) focuses on unique, inimitable and valuable firm-internal resources which contribute to performance. Issues related to the *implementation* of HRM were discussed by highlighting the role of key actors and the importance of their cognitions in organisational decision making by introducing the 'managerial cognition' perspective.

Chapter 3 summarised findings from empirical studies on the HRM-performance relationship based on the dominant theoretical positions, i.e. the HRM logic and strategic perspective and recorded key findings from those studies by means of a range of observations. Based on these, general research implications were derived. The widest gap in the literature was identified as a lack of research on the processes by which HRM contributes to performance. Therefore, the main focus of this research was on processes, and hypothesis two (H2) proposing a contribution of HRM to performance was established. Four specific sub-hypotheses explicated a causal path from HRM to performance, based on the literature. A further under-researched aspect was incorporated in hypothesis one (H1), i.e. the influence of the economic context on performance which might bias observations of HRM effects.

The following discussion begins with a review of how the study was conducted and the data analysed. Based on this the contributions are discussed.

Due to the lack of an agreed definition of advanced HRM or performance, no established measures for performance or HRM could be used. However, both HRM sophistication and performance measures were strongly informed by the management questionnaire of the WERS 98 survey and the Ramsay et al. (2000) paper based on the survey. This approach therefore intended to refine and adapt existing measures to the requirements of the study. The subjective performance questions referred to categories used in WERS 98, but extended the list beyond those used in WERS 98 and changed the question format to the achievement of idiosyncratic standards rather than a comparison against the industry standard which have been shown to be problematic due to a bias towards better performance as discussed in Chapter 3 (see Table 3.1).

A relatively structured approach was adopted with interview questions derived from the hypotheses. This approach enhanced standardisation and thus limited the scope for researcher subjectivity. Within the so defined structure, the respondents had the freedom to express their views and go beyond the immediate questions. Leading questions or other behaviours suggesting the desirability of particular responses in favour for or against certain concepts were avoided. Piloting the questions with adequate respondents was only possible for the HRM interviews where an HR manager kindly provided assistance. A method applying different instruments over various points in time could realistically not been employed and would certainly not have been welcome by the respondents. Due to financial constraints in conducting doctoral research as well as considerable time limitations by respondents, there was only one opportunity per respondent to gather the required data. Thus, the approach adopted proved viable from a practical perspective also.

Concerns for validity were addressed by asking questions from the most relevant informants. In this research, HR managers were questioned on HRM policy, general managers on organisational strategy, performance and the role of HRM on the

organisational level, and line managers were questioned on the contribution of HRM for their departments and for their idiosyncratic objectives. As respondents of different levels and positions were chosen to elicit information most closely related to their immediate realm, the error introduced by “single respondents answering quick questions” (Purcell 1999, p. 28) prevalent in many survey-based studies could be avoided.

The adoption of a structured approach ensured consistency of method across respondents to enhance the reliability and potential replicability of the research (Yin 1994). Variations may have occurred due to the degree of openness allowed for by the instruments used, particular the semi-structured section in the interview with general managers and the interviews with line managers. However, this was deemed necessary as the epistemological position which incorporated to a large degree (by nature subjective) managerial cognition required enough room for such cognition to be expressed rather than myself imposing too tight a structure on the respondents preventing them to share their cognitions. In other words, validity would have been impaired, had too tight a structure been adopted resulting in limited opportunities for respondents to share their subjective views. The relatively structured framework helped contribute to reliability and validity by reducing the potential for researcher bias. Overall, rooting the questions in prior research helped asking those questions yielding information from respondents which are accurate and relevant to the issues studied, an important element in judging the validity of a qualitative study (Mason 1996).

On an interpretive level, the adoption of a coding process based on the open resource logic treating nodes as ways of structuring the texts from interview transcripts rather than treating them as variables consequently attempted to continue the compromise between structure and openness also in the data analysis phase. An analysis of the raw data by another researcher would be expected to yield similar results, particularly the centrality of HR- and staff-related concepts and the contribution of HRM to staff outcomes and performance. Using a second or third coder would have helped verify these arguments, however, was and is unrealistic given the resources

available for doctoral research. Different coding systems, predominantly with pre-defined codes related to the hypotheses were investigated and one system finally adopted (see Appendix C).

The causal maps were constructed in accordance with the open resource logic of coding. This data analysis method facilitated a structured and consistent approach to viewing the raw data whereby the original documents served as basis for constructing the maps in order to ensure preservation of meaning given by the respondents, i.e. subjective validity. The numerical domain analyses and tabular presentation of findings in regard to direction of influences between concepts further increased reliability of the data analysis and reduced subjective bias of data interpretation.

The necessity for a distinction between policy and practice and the focus on the latter when investigating the HRM-performance link has become apparent in the research. The *exclusive* focus on policy, particularly when data are collected at the organisational level with suboptimal precision may enhance the possibilities of misinterpretation of growth in HRM sophistication. As the reported HRM changes may not be applied consistently across departments, it would be inappropriate to use organisational level (or worse, still, firm level) HRM policy data as the independent variable in HRM research. As HRM delivery varies across departments, so do idiosyncratic performance indicators. The real effects of HRM on performance are thus to be best investigated by a theoretical conceptualisation of HRM as departmentally applied practice of organisation-wide designed HRM policy. Despite ongoing debate about measurement of HRM and the adequate choice of respondents (Guest 2001, Huselid & Becker 2000, Gerhart et al. 2000), there is increasing agreement that a distinction be made between HRM policy and its practical application and that it is the latter which matters for the HRM-performance debate. Truss (2001) highlighted the role of line managers in delivering HRM in ways not necessarily consistent with formal policy, and my own research adds further to this finding.

At Blue in particular, it was found that formal policy did not automatically translate into practice as one line manager confirmed that certain practices and procedures related to recruitment and selection did not have to be followed and were not monitored. The general manager confirmed this by elaborating on past instances whereby incompetent staff were seen on the property and the managers who had recruited them were sent on selection and recruitment training to improve their skills in these areas. At Red, it was highlighted by one manager that it was the informal meetings and informal chats which helped assure staff of management support and broke the barriers between staff and management through open communication rather than a formal communications or employee relations policy. At Yellow, it was emphasised that training was mostly informal and unrecorded, further supporting the need to focus on practice rather than formal policy.

The discussion of performance as an output variable in Chapter 2.2.1 has illustrated that an exclusive focus on firm financial performance as proposed by Becker & Huselid (1998a) and Huselid & Becker (2000) is inappropriate for investigating the HRM-performance question as profitability can vary across business units as can HRM. Organisations are likely to face idiosyncratic, “real business problems” (Becker & Gerhart 1996, p. 794) which can include “problems such as product development cycle times, customer service, and so forth.” (ibid.) Financial measures on the organisational level are cascaded down and translated to performance objectives on departmental levels which need not be financial (Warner & Hennell 1998). Relying exclusively on standard measures cannot capture those specific goals and problems, and hence HRM effects directed to support those specific goals are not adequately measured. These considerations were supported by the present research.

On their websites, Blue, Red, and Green provide detailed and comprehensive information on key financial statistics as well as current share prices. On an establishment level, as discussed by general managers, objectives included improved service levels, improved operating efficiency, successful establishment of a niche marketing strategy, and successful upgrade to the four-star level. The departmental objectives of managers included aims such as integrating previously separate

departments, improving service levels, minimise disruption of the operation during the refurbishment. Thus, already on the hotel level there is evidence for non-financial objectives becoming even more relevant in the departments of operational managers, supporting Warner & Hennell's (1998) and Becker & Gerhart's (1996) arguments. Considering the variation of HRM application on a departmental level and the considerations about performance, a strong case can be made for the departmental level being of crucial importance when investigating the HRM-performance question.

This argument receives further support when considering the evidence for H1, i.e. the impact of the economic context on organisational performance. The chosen research design promised to be particularly conducive to investigating this hypothesis since the case study hotels operated within very similar markets and offered an externally audited standard of four-star Scottish Tourist Board level accommodation. The hotels were operating in the same city and were thus subjected to similar potential regional influences in both product and labour markets. As the boundaries of the research were well-defined, very specific data on perceptions of business confidence, capacity used, total demand, trend in turnover and costs and average room rate over time could be gathered. Benchmarks to overall Scottish figures were calculated with *SPSS* from unpublished Scottish Chambers Business Survey (SCBS) data. In addition, factors limiting sales could be investigated for both the Glasgow and Scotland hotel population from the SCBS data and all these SCBS data could be compared with data gathered from respondents using questions from the original SCBS survey to ensure consistency and comparability of results. Using the same sources, data on the labour market were gathered, again with reference to Glasgow and Scotland. Subjective evaluations of general managers regarding the experienced degree of competition in the product and labour markets contributed to the understanding of the perception of the external market forces by the individual hotels. Interview data from an unbiased expert from the tourist board not attached to any hotel in the sample and longitudinal exchange rate figures added to the knowledge about the external context.

The qualitative data gathered by interview with the tourist board executive provided valuable background information facilitating an understanding of the development of Glasgow as a destination. Glasgow's attractiveness as a short-breaks and convention destination rose steadily after the award of *European City of Culture* in 1990 which was an important element in repositioning the city in the travel markets, both nationally and internationally. The growth in the international markets, particularly meetings and events, enabled a rise in room rate and also stimulated a rapid growth in the hotel stock as well as upgrading of facilities and service standards. This led to the somewhat paradoxical phenomenon of both increasing competition and increased performance (including rising room rates). However, SCBS data revealed that room rate trends were falling, implying that the hotels in my sample outperformed the overall Glasgow market. This could be due to either a lack of representativeness of the rather small Glasgow sample in the SCBS data which was further reduced by eliminating non-city hotels which had been coded as being part of Glasgow. However, another explanation appears more appropriate. Given the rise in demand for quality accommodation and a growth of supply over the past years particularly in the lower and mid-range market segments, it is implied that growth in room rate was possible in the upper market segment. In the upper market segment represented by the four-star hotels, more international business and leisure travellers used to higher rates and better service allowed for the rise in room rate, whereas the lower grade hotels had to discount rates to sustain business. This explanation is consistent with the views of the general manager of hotel Red and appears even more likely given that the three hotels in the sample already constituted a good representation of larger upper market segment hotels within the city. Due to the small sample size discussed in Chapter 5, it was unfortunately not possible to substantiate these inferences by disaggregating the survey further and test for differences between different star categories.

Notwithstanding the gap in the objective performance data, one case (Blue) had provided five-year longitudinal subjective performance data, Green three years and Red had provided objective data which were however only of limited value due to bias through refurbishment yielding unusable figures. Interestingly, the data for Blue

correspond closely to the SCBS data for Glasgow with total demand and capacity used reaching a peak in 1999 which was regarded as a very good year by Blue, and also the performance figures for Green displayed improvement. Whilst some indicators for Glasgow allowed for the observation of parallels to the hotels in the sample, it was not possible to draw parallels from the Scottish figures. Within Glasgow, despite being large hotels with the same star-rating within the same city, the hotels operated in somewhat different markets and use different strategies, so that there was some variation in regard to competition experienced. Therefore, the sample hotels did not constitute a homogenous population that could easily be compared to the averaged business indicators from a survey. Agreement prevailed, however, in regard to the macro-economic factor exchange rate as a limiting factor for sales which could be substantiated by an analysis of exchange rates of the pound against major, particularly European, currencies. Hence, local developments including the development of the city as a destination, a higher attractiveness of Glasgow in international markets for meetings and events (substantiated by ICCA figures) and an overall rise in both quantity of hotel stock and its quality levels helped the four-star hotels in the sample to raise room rates and develop other performance measures. There are some parallels with the SCBS sample for Glasgow, but performance in the case-study hotels was consistently better than the SCBS Glasgow sample which may be explained by the higher quality of service provided. Meetings and events are booked years in advance allowing for predictions of particularly successful years (as discussed by the general manager of hotel Blue) so that there is a dependency on the business cycle of major conference venues which, naturally, is strongest for hotels such as Blue located in the vicinity of such a major conference venue.

In summary, then, it can be derived that H1 received good support and that the external environment, well illustrated by the developments within a particular location, influenced performance both in terms of competition perceived and also in terms of organisational performance. Despite using quantitative methods to contrast findings from different sources, no statistical tests could be employed to subject the results to further statistical tests due to the small sample sizes for both the Glasgow

SCBS sample and the (in statistical terms) insufficiently small sample of the case-study companies. The magnitude of effects could therefore not be studied, and it is not claimed that the external environment fully explains the variation in performance. Rather, it is postulated that the external environment, if observed in detail whilst taking into account historical developments and background information, can help explain performance.

It was also investigated, whether HRM adoption itself is influenced by the external context. For this purpose, Scottish Chambers Business Survey (SCBS) data on the labour market were analysed. In Glasgow, recruitment activity was high between 80% and 100% recruiting staff (with a peak in 1999 paralleling the peak in demand), recruitment difficulties rose continuously to over 40% net indicating recruitment difficulties, and particularly from 1999 hotels in Glasgow experienced strong difficulties recruiting suitable employees with ca. 80% agreeing to this statement in 2001. In parallel, problems in retaining staff have risen strongly also, particularly from 1999. The respondents agreed that staff shortages were a problematic issue in Glasgow which was also confirmed by the tourist board executive. These labour market pressures have made it more difficult to compete for staff. Both secondary and primary data, i.e. views of respondents point towards an increased importance of HRM, once seen as a “hassle” (HR manager Red).

Overall, then, there is considerable support that the economic environment not only influenced performance, but also that the economic environment of the hotels stimulated a stronger emphasis on HRM. Given the influence of external market conditions, the point made here is that a more satisfying answer to the question how HRM contributes to performance might be found at a different level of analysis which was tested when investigating H2.

Past attempts to open the ‘black box’ between HRM and performance have been limited. Previous studies have been conducted on the firm or plant level and, as discussed above, the results are sufficiently stimulating to keep on trying opening the ‘black box’. However, first of all its location needed to be identified. Based on the

argument that HRM has primarily effects on people who in turn perform within the context of a particular job role or work team to deliver a service or manufacture a product, the immediately related level would be that of a department within an organisation which has a particular function for the achievement of objectives of the organisational unit. Due to their different functions and structures, departments are likely to have different objectives which relate to the overall organisational strategy which are likely to be non-financial (Warner & Hennell 1998) and it can therefore be expected that it is here where business-specific key objectives or “real business problems” (Becker & Gerhart 1996, p. 794) are to be found and where HRM’s impact on the solution of these problems or the achievement of operational goals through “idiosyncratic contingencies” (ibid.) can be studied. This proved to be the case as the data summarised in Table 5.16, Chapter 5 illustrates.

Organisational strategies, according to all general managers’ views, tended to be oriented towards improved service levels which can be understood in the context of the market conditions elaborated above. Concentrating on better service and thereby consolidating the position in the upper market segment was the best strategy to assure higher room rates than the overall Glasgow SCBS sample experienced. However, even at this level, there were particular strategic objectives which differed between the hotels. Whilst the drive for better service was reflected in most line manager objectives, these turned out to be even more idiosyncratic and consequently different from each other. Not investigating the effect of HRM on *these* objectives would mean that the potential impact of HRM on performance cannot be fully evaluated as important intermediate elements are ignored. Organisational performance and the contribution by HRM to it can hardly be understood on the establishment level without investigating achievement of particular departmental targets which are consistent with and supportive of organisational strategy.

For example, the increased competition in the food and beverage market experienced at Blue required a reorganisation and integration of previously separate food and beverage departments. The establishment of a niche market strategy at Green strongly focused on local corporate business and required the establishment of a new

sales team able to conduct the necessary market research and liaise with relevant local institutions. The organisational strategy at Blue to improve sales and profitability required a stronger focus on yield management by an amalgamation of previously separate sales strategies and the creation of the new role of revenue manager. At Red, the refurbishment of the hotel required changes in the management structure and procedures to be delivered by newly created or modified departments. In addition to the obvious functional importance of departments to organisational success, it was stressed managerial respondents with one exception that staff rather than other factors influenced the achievement of departmental objectives.

This constitutes strong evidence for the assumption implicit in most HRM research, i.e. that it is staff rather than other factors which has the greatest impact on (however defined) performance outcomes. The test of H2 enabled to make this assumption firstly explicit and secondly managed to provide considerable evidence for it through strong agreement between respondents across organisations. That this agreement did not only constitute lip-service paid to the invaluable contribution of employees in general was supported by the fact that a quantitative domain analysis of the centrality of concepts within managerial causal maps featured staff-related (and HR-related) issues consistently as those most central to the managerial cognitions. What exactly is it, then, that happens within the 'black box'? According to the findings based on the investigation of the sub-hypotheses of H2, HRM application by line managers (which can be different from the existence of formal policies as particularly one line manager at Blue emphasised) had a range of effects.

Due to the heterogeneous nature of idiosyncratic objectives it cannot come as a surprise that there was no universal agreement on the effects. However, there was substantial agreement that work organisation helped reduce turnover, training and development improved skill levels, better recruitment and selection techniques raised staff quality, employee relations/ staff treatment/ communication reduced turnover, objective setting and performance appraisal processes contributed to the achievement of standards and objectives, internal promotion reduced turnover, but could also lead to jealousy, staff composition with higher percentage of full-time and skilled staff

reduced turnover, and a lack of incentives and rewards increased turnover and staff shortages. As turnover had been identified as problematic by both HR managers and its negative effects had also been highlighted by line managers, HRM application demonstrates its effectiveness in supporting organisational objectives. A range of staff outcomes illustrated in Table 5.15 demonstrate that, in addition to staff turnover, other issues such as staff shortages, staff quality, and commitment were primarily influenced by HRM. The idiosyncratic outcome variables which unsurprisingly hardly overlapped between the different respondents were influenced by staff outcomes and, to a considerable extent, by HRM initiatives directly. It is not entirely clear whether the respondents really did see a direct effect or just assumed that the intermediate chain link of employee outcomes is obvious anyway. For example, whereas it was acknowledged at Blue that attitudes influenced service quality positively, the same effect was constructed for staff training. It was not said, however, that staff training lead to higher staff quality which in turn affected service quality. Hence, the causal maps may be somewhat incomplete due to certain cognitive shortcuts used by the respondents. Despite this, however, there is strong evidence for the contribution of HRM to performance understood as *departmental performance*.

The evidence implies that successful repositioning of the city within travel markets and the strategies adopted by the hotels to exploit these opportunities consisting in enhanced yield management, management restructuring, and service as well as standard improvements resulted in better *organisational performance*. As argued above, departmental objectives have been shown to be functional in contributing to organisational performance. HRM therefore helped improve organisational performance by supporting the departmental goals and solving departmental problems, often staff related in nature.

Therefore, the real 'black boxes' are located on the level of the departments where HRM is applied by line managers in a way not necessarily in accordance with formal policy. On this level, HRM has demonstrated both direct effects on the achievement of departmental performance indicators and indirect effects through employee

outcomes. HRM was found to contribute to performance, but in an idiosyncratic way. To understand it, the exact application and relevance of HRM must be investigated in a particular departmental setting and its effects on specific outcomes observed. These departmental outcomes jointly contribute to the achievement of the organisation's objectives. In contrast to the conventional HRM logic, rather than recognising the potential contribution of HRM to performance and therefore adopting a comprehensive approach to increasing HRM sophistication by introducing an array of advanced practices, HRM was used as a tool to solve operational problems and to improve operational standards, particularly service and quality which themselves were responses to changes in market demand. To be more precise, *elements* of HRM were used to achieve these objectives rather than an overall sophisticated HRM approach. Whereas, for example, the benefits of more advanced recruitment and selection approaches and of intensified training programmes were acknowledged and reflected in policy application, other issues such as pay have been largely neglected.

Shifting the discussion to more practical contributions of this thesis, the problematic issue of high staff turnover has been acknowledged by HR and line managers alike, and its negative effects (e.g., financial costs, staff shortages) have been discussed by line managers in particular. Despite these acknowledged negative effects, little effort has been made to change the unfavourable pay conditions which were seen as factor contributing to staff turnover. HRM policies can play a vital role in reducing staff turnover, according to the views of line managers. Despite these realisations and an acknowledgement by some respondents that the pay conditions must be changed to be competitive in the labour market, an attitude of not being able to change pay conditions prevails. Ironically, one line manager at Green even welcomed the national minimum wage as it reduced the pay differential to other organisations competing for labour. An explanation suggested by one line manager at Green referred to historical budgeting policies, however, the issue was not discussed further.

It can be assumed that there might be different budgets for HR-related issues on the one hand such as training and development and recruitment, i.e. the areas where

turnover causes increased costs, and wage costs for the operational departments on the other hand. Thus, there may not be a connection between turnover costs and departmental costs within the same budget, but budgets based on historical figures (separate for HR and operational departments) with no incentive or opportunity to experiment with increasing wages and benefits within departments which could be financed through reduced training and selection costs. This consideration was discussed with two management accountants and regarded as plausible. I was advised to get precise data on accounting policies from the organisations and study the accounting processes. As this issue is outwith the boundaries defined for this study, no further effort could be made to investigate these leads. However, it would certainly be beneficial for organisations to consider these possibilities and experiment with improving pay levels to reduce turnover further which would result in lower cost for training new staff and reduce staff shortages within departments.

The discrepancy between actual HR practice and insight as revealed through the causal maps might be explained by reference to Spender's (1989) notion of 'industry recipes' or Phillips' (1994) 'industry mindsets' which encompass shared understandings of the nature of competition and can extend to issues such as the purpose of work and the nature of work relationships. An 'industry recipe' within the hotel sector may be that wage costs have to be kept low and this conception might be normatively shared across the industry and therefore difficult to overcome, despite a realisation of processes rendering the 'recipe' inadequate in a market situation calling for skilled staff with higher tenure. If competition for better staff is not only rhetoric, but reality, one would expect developments in this area as this could constitute a way to compete more successfully in for staff in a tight labour market.

It has been shown that HRM policy and practice may vary. This may have both potentially positive and negative effects. It could be negative from an organisational point of view as formally designed HRM was designed for a purpose and therefore should not be disregarded. On the other hand, line managers surely have reasons to modify HRM in the light of their departmental idiosyncrasies. These can be valid operational reasons – or dysfunctional inertia, lack of knowledge or motivation, as in

the case of Blue where selection methods below the official organisational standards had been employed by some line managers with negative results on staff quality within the property. In analogy to Becker & Gerhart's (1996) conception of HR architecture, policies and practices, official HR policy could be designed to describe the guiding principles of HRM in the organisation rather than prescribe particular practices which will be modified in the light of departmental circumstances. In case the organisation deems it necessary to prescribe particular practices, it would nevertheless be advantageous to acknowledge more explicitly the deviation of practice from policy and to monitor what HRM practices are firstly applied and secondly appear to be effective in certain circumstances. This implication would require a changed role of the HR function and constitute a proactive attempt to increase HRM effectiveness through knowledge on HRM practice effects which can be understood in the context of Townley's (1994) argument that HRM can contribute to reducing the indeterminacy of the employment contract by generating knowledge on various aspects of the employment relationship, including the workforce population, the individual worker, and the work tasks. It would constitute a logical expansion of Townley's (1994) argument to the domain of knowledge on the effects of employment practices on employees.

The remainder of this section focuses on methodological contributions. The empirical study demonstrated that despite their potential benefits, longitudinal data on HRM and performance might be difficult to gather in practice. Objective performance data could only be gathered from one organisation, and subjective data on HRM and performance were incomplete. Concerns about confidentiality were an important, but not the only reason for difficulties accessing objective performance data. One general manager had indicated that such data would be made available, but his subsequent move to another appointment and frequent attempts to gain access to the data from the predecessor were unsuccessful. Another general manager also moved to another position outside Glasgow as did the deputy general manager who might have been able to provide data so that neither subjective nor objective performance data could be gathered. Explicitly due to confidentiality only one organisation declined the request for objective data. Thus, turnover at senior

management level proved to be a considerable limiting factor for obtaining performance data. Organisational-level HRM data were incomplete due to relatively short employment duration of the HR managers interviewed (i.e. a maximum of 1.5 years prior to the interview). A longitudinal study, unlike the present study gathering data on HRM and performance merely for their contextual relevance, attempting to investigate performance and HRM changes over time, would therefore be expected to encounter serious difficulties due to lack of valid data.

The strong advantage of the adopted methodology is the automatic control for factors that have been found to constitute potential biases to the investigation of the HRM-performance relationship, e.g. unionisation and capital intensity. Regionally specific factors relevant to both product and labour markets could also be controlled for which inspires confidence in the validity of the findings, with the limitations discussed above.

Another advantage of the methodology consists in acknowledging micro-changes on both departmental and organisational levels. At Red, only data from 1996 to 1998 were useable as 1999-2000 figures are biased due to refurbishment when several sections of the hotel were closed at different times and the number of available rooms significantly reduced. Interestingly, this refurbishment was undertaken to support Red's move into a higher market segment (from three to four star deluxe). Most quantitative surveys would fail to take into account this fact nor acknowledge that this is the reason for decreased financial performance in 1999-2000, implying problematic validity of the dependent variable financial performance prevalent in quantitative surveys. As this example illustrates, a close investigation of the context can help explain and understand organisational performance which reinforces the argument for case-study research on HRM and performance.

The value of the study and its potential methodological contribution is also illustrated by the choice of multiple respondents on different levels all of whom were asked exclusively to provide data on issues relating to their immediate domains. In addition, the responses were contrasted with both local and nation-wide data,

allowing to view the responses in a meaningful context. The comparison of local and nation-wide points for comparisons illustrated that whilst the Glasgow city data make certain parallels apparent between my sample and the SCBS sample, the Scottish figures do not. Hence, the immediate organisational context is to be taken into account when investigating the HRM-performance link.

Both on a data generation and data analysis level, an approach was conducted which aimed for a balance between structure and openness. Structure was required to enhance validity through asking meaningful questions as well as reliability through potential replicability of structured methods by rooting the structure of questions and nodes in the literature and research questions. Openness was required to allow for an authentic expression of managerial cognition to be analytically processed by a causal mapping approach.

Causal mapping and a managerial cognition perspective appear not to have been applied in any paper addressing the HRM-performance question before. The methodology of this research thereby contributes to the body of knowledge in the field by opening a new avenue of enquiry, illustrating that there is a previously unexplored way to open the 'black box', after having located it on a departmental level, by investigating managerial cognitions. How managers make sense of the problems and objectives of their departments and which solutions they employ can, as demonstrated, show how and why particular problems were solved and objectives achieved. Recollecting the fact that it is the actual practice that matters in HRM research rather than the formal policy, research benefits from investigating the sense-making mechanisms of those in charge of the practical application of HRM. Or, in other words, HRM in practice (and its effects) cannot be fully understood without reference to managers applying HRM.

6.2 Limitations

Within the domain of social sciences, no method is without problems or universally accepted. The most appropriate strategy is to acknowledge the limitations fully which are discussed in this penultimate section. The study has limitations due to subjectivity, representativeness, and the reliance on only one group of respondents.

Limitations due to subjectivity are addressed first; subjectivity can limit the validity of the findings in the form of respondents' subjectivity as well as the researcher's subjectivity. It could be argued that an approach relying on only one key managerial decision maker per department has limitations as this manager's sense-making mechanisms may not represent reality as it is, or, whose sense-making mechanisms do not necessarily make sense as there may be logical inconsistencies, adding little to clarification. For example, rather than presenting their cognitions accurately, the causal maps may represent a post-hoc rationalisation. Applying a method elaborated in Chapter 4, i.e. a direct verification of the cognitions expressed with the respondent as the causal maps are constructed can improve the logical consistency. However, such an approach may facilitate a post-hoc rationalisation undesirable for scientifically oriented research, albeit consultancy-oriented investigations seeking to change reality may benefit from this method. It can be argued from a managerial cognition perspective that the very application of HRM within a department rest on the cognitions of this one manager as this individual is the key decision maker who has the potential to change departmental reality based on his or her cognitions. However, the problem remains as to how to accurately record and represent those subjective managerial cognitions which are in fact relevant to a change of departmental reality.

Another possibility would be that the recorded managerial cognitions represent social and organisational desirability rather than the respondent's subjective reality. In particular, the desire on the part of HR managers to enhance the importance of their own profession by emphasising the centrality of HRM in their organisations may well have influenced their responses, assuming that the research might be published. In fact, Guest & Peccei (1994) had found that HR managers rate their

influence more highly than line managers do. Similarly, line managers' subjective accounts, although naturally hardly concerned with HRM as a profession, might well have been biased to the effect that the importance of staff as the most valued asset is emphasised, following widespread corporate rhetoric. However, the fact that HRM and employee-related concepts were of high centrality in line managers' thinking as analysed through causal mapping and domain analyses inspire confidence in the subjective validity of these claims. It is rather more difficult to fake a high centrality by making frequent reference to particular concepts than making a claim based on corporate or social desirability. The substantial amount of agreement between the respondents further supports the assumption that the responses do reflect respondents' subjective validity. However, it must be acknowledged that concerns relating to this issue can never be fully eliminated in qualitative case-study research adopting a managerial cognition perspective.

It could be argued that research in the area remains limited in its contributions as long as the views of those on the receiving end of HRM are not taken into account, i.e. employees. Truss' (2001) findings regarding employee perceptions of formally advanced HR policies and Meyer & Smith's (2000) investigation of the mediating influence of perceptions of HR practices on HR outcomes suggest that employee perceptions can be an important element used in a triangulation process to substantiate managerial claims, particularly in relation to the HR outcomes reported. No one knows better than the employees themselves whether or not training increases their commitment, for example. Therefore, as the present research has not consulted employees to triangulate managerial data on the effects of HRM on employee behaviour, the research is limited in that respect which is to be acknowledged.

Subjectivity understood as researcher subjectivity may also have contributed to limitations of this study. Despite all attempts to conduct qualitative research based on a structured approach to ensure rigour and reliability, it is to be acknowledged that such a study cannot achieve the degree of replicability as can be achieved using an extensively researched and validated questionnaire with high internal consistency as

measured by, for example, Cronbach's Alpha. Despite their structure, the interview protocols allowed for considerable deviation from the predefined interview structure and could incorporate additional responses previously unanticipated. Whilst this is welcomed in qualitative research as it enables a more complete understanding of the respondents' views and idiosyncratic concepts, it prevents a complete replicability of the study, even when using the same organisations. With respect to the data analysis, even though similar results are expected from another researcher repeating the data analysis of the raw data, variations are likely to occur. In their 'user's guide' on CM, Ackermann et al. (1990, p. 2) note that "[t]here is no definitive map of an account." Whilst this appears acceptable in qualitative research as the benefits of a deeper understanding of a particular issue are thought to outweigh concerns discussed above, it is good practice to explicitly acknowledge this limitation.

Finally, concerns about the representativeness of the study are to be addressed. In Chapter 4 it was argued that a sample, however large, of large hotels is not representative of the hotel industry in general as large hotels constitute only a small proportion of hotels. Based on the characteristics of the sample hotels, the sample was assumed to be representative of the four-star hotel sector in Glasgow due to similar opportunities and labour market pressures for the remaining four-star hotels. Representativeness was also assumed for large city-centre hotels in the UK. Upon investigation, however, many of the external conditions appeared to be unique to Glasgow, e.g. its repositioning after 1990, the expansion of hotel stock in the lower, middle, and later higher market segments, the drive to higher service levels and standards as well as the increasingly tight labour market.

On the one hand, there is substantial agreement between managers in regard to certain effects of HRM and its links to performance. On the other hand, however, a number of idiosyncratic effects were found which only applied to particular cases. In addition, despite a general orientation towards higher service and quality levels within the hotels, departmental performance indicators were found to be highly idiosyncratic. Despite similar characteristics of the case study organisations

themselves, the results highlight potential difficulties extrapolating the findings to all large or even Glasgow four-star hotels.

In addition, the variables that could be standardised by the selection of the Glasgow four-star hotels in the sample are likely to vary strongly in other settings, namely unionisation, capital intensity as opposed to labour intensity, similar staff composition and operating in the same or highly similar product and labour markets. Despite the likelihood of similar mechanisms to be discovered in other settings, I would be very careful to claim validity of the precise findings themselves beyond the immediate setting in which the study was undertaken. More capital intensive industries less reliant on staff producing a perishable service for an immediately present customer may require different staff inputs to ensure organisational success and possibly a different role of HRM initiatives for staff to be effective. The objective of this thesis is an attempt to open and thereby to shed light into the 'black box' by illustrating potential processes by which HRM can contribute to performance. It is not claimed here that the processes and HRM effects uncovered by the present research are the only ones by which HRM can demonstrate its effectiveness, be it in large UK, in four-star hotels in Glasgow or elsewhere. Potential processes were found, and the research implies that on a more abstract level, the research findings could indeed identify issues which are likely to be relevant in any setting.

The thesis of this thesis, based on the results obtained, is that the 'black box' between HRM and performance on an organisational level is more complex than initially expected. Organisational objectives are cascaded down to departmental objectives which are likely to be non-financial in nature, and it is in these departments where line managers draw on organisational policy resources to select and apply those which appear to be instrumental for solving departmental problems and achieving departmental objectives which in turn enhance organisational performance. Hence, there are further 'black boxes' within the larger organisational 'black box'. Clearly, these insights can serve as a basis on which to conduct further research, and suggestions concerning this are presented in the concluding section of this thesis.

6.3 Suggestions for further research

Whatever its methodological orientation, further research would be well-advised to further explore the importance of departmental HR practice and their effects on idiosyncratic objectives which in turn contribute to organisational effectiveness. A variety of research designs could potentially contribute to advance research progress in the area which are briefly reviewed below.

Adopting a similar methodology as this thesis, the validity of my findings for other settings could be investigated. These could include more capital-intensive industries, or heavily unionised industries for example. A replication of this study within the four-, three-, or five-star sector in a different location could confirm or challenge findings, support the robustness of the methodology or make constructive suggestions to advance it.

One case study of a large publicly listed firm could investigate the contribution of departments of different units in potentially different stages of the business cycle and investigate the links between corporate financial performance as preferred by Huselid & Becker (2000) and subordinate levels. This setting would be particularly ideal for researching the rhetoric of firm-level HRM, its manifestations on a policy and practice level for the business units and finally the departments.

Rather than using industry sector or organisation type, research could also focus on firm performance as sampling criterion. Truss' (2001) study is based on one successful firm which is compared to other successful firms in terms of employee outcomes and performance results. Despite this comparison, Guest's (1992) critique of the Peters & Waterman (1982) study is likely to be relevant in this context as it is successful firms which are compared against each other. As long as we do not know whether advanced HRM might also be prevalent in an unsuccessful firm, claims that advanced HRM in successful firms causes this success are to be treated with caution (to be sure – Truss does not make such assertions herself, albeit the sampling method follows this logic). An interesting line of research would incorporate the longitudinal study of performance of organisations and separate them into high performers, bad

performers (against industry standards) or into groups characterised by performance trends such as improving, declining, and stable. A further analysis could then investigate the development of HRM and attempt to uncover reasons for this using a causal mapping approach.

The point made earlier that the small sample size of this research prevents a meaningful classification of idiosyncratic effects of HRM as seen by line managers could be a useful starting point for future research. Using quantitative surveys with large sample sizes and processing responses by means of factor and cluster analyses, an investigation of agreement between managers on HRM effects could be attempted and the idiosyncratic contexts as well as performance outcomes compared.

Whatever the chosen path of future research – some of the potentially interesting and beneficial ones are outlined above – there is one element which needs to be taken into account more strongly by future researchers and which relates to the last point made in the previous section regarding a lack of verification of line manager cognitions as suggested by myself. It is essential that the perceptions of employees are taken into account so that managerial and employee cognitions can be compared and resulting data triangulated. For such research to be meaningful, a sector with low to medium turnover may be preferable rather than the high-turnover hotel industry where long-term staff are hard to find.

I agree with Guest (2001) that it would be unfortunate to abandon research in the area of HRM and performance in the light of numerous methodological and conceptual difficulties. Research *has* progressed, methodological problems *are* increasingly addressed and the research question how HRM contributes to performance was and continues to be at the heart of the debate on HRM, both as an academic discipline and managerial model. This research has shown that a unique contribution both to an answer of the research question and an exploration of a new methodology can be made. Blueprints of further research designs have been drawn and I hope that the implications from this thesis will inform future research on HRM and performance.

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