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**HRM AND PERFORMANCE, RESEARCH WITHOUT THEORY?
A LITERATURE REVIEW**

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'HRM AND PERFORMANCE', RESEARCH WITHOUT THEORY? A LITERATURE REVIEW

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Abstract

Due to the increasingly intense global competition and the corresponding search for sources of sustained competitive advantage during the last thirty years, the interest in strategic management has risen, both among academics and practitioners. This evolution resulted in various organisational functions becoming more concerned with their role in the strategic management process. The Human Resource Management field has similarly sought to become integrated into this process through the development of a new discipline referred to as Strategic Human Resource Management. One of the central issues that has been studied in the field of SHRM is the HRM-performance relationship. Despite the pile of studies on this topic, it has been criticised for its lack of a strong theoretical foundation.

The purpose of this literature review is to make a journey of exploration through the (S)HRM-performance literature and to map out the different theories that can be useful in understanding and explaining the complex relationship between these two variables. This 'theory mapping' should enable us to decide upon the presence or absence of theory within this research field.

Our main conclusion is that this field does not suffer from a lack of theories. On the contrary, the existing theories include economical, sociological as well as psychological perspectives and all together they shed some light on how HRM might be determined and how the mechanisms within the black box might work. Moreover, conditions are proposed under which HRM can lead to higher performance. The real problems researchers are coping with can be summarised as follows: (1) the difficulties the (combination of) present theories impose on empirical research, (2) a lack of theory building with regard to the concepts of HRM and performance and their measurement and (3) the constant theoretical reorientation because of the ever returning criticism.

Introduction

Due to the increasingly intense global competition and the corresponding search for sources of sustained competitive advantage during the last thirty years, the interest in strategic management has risen, both among academics and practitioners. Dyer & Reeves (1995) describe this evolution as follows: 'Global competition emerged in a major way in the 1970s, intensified in the 1980s and has become 'a way of life' in the 1990s. At first competition was based on price. With time, the focus shifted to quality. Currently, globally competitive prices and quality are, for many companies around the world, simply baseline. The real competitive action these days focuses on customised products, service, speed and innovation'. As capital and technology became available to almost everyone everywhere, the search for sources of sustainable competitive advantage increasingly pointed towards a firm's internal strengths and opportunities (Barney, 1991). This focus on organisational capability has resulted in various organisational functions becoming more concerned with their role in the strategic management process. The Human Resource Management (HRM) field has similarly sought to become integrated into this process through the development of a new discipline referred to as Strategic Human Resource Management (SHRM) (Wright & McMahan, 1992). The popularity of SHRM has increased over time thanks to the explicit promise of greater organisational effectiveness achievable through the development of a well balanced HRM and a highly skilled human capital pool (Delery & Shaw, ed. 2001; Fombrun, Tichy & Devanna, 1984).

Despite this rising interest, the SHRM field has been criticised during the late eighties and early nineties for its lack of a strong theoretical foundation (Dyer, 1985; Mahoney & Deckop, 1986; Bacharach, 1989; Butler & al., 1991; Ferris & Judge, 1991). In an attempt to refute this criticism, Wright & McMahan (1992) developed a definition of the SHRM construct and discussed six theoretical models relevant to the research field. One of the central issues in their framework and in the SHRM field is the link between HR practices and firm-level outcomes. The relationship between both variables has been subject to a huge body of empirical studies. Theories have been developed in three main areas concerning HRM and performance: (1) the concept (and measurement) of HR practices and HR systems appropriate to study the link with performance, (2) the concept (and measurement) of performance and (3) the nature of the linkage between the two variables (Truss, 2001). Despite this theory development, three of the most cited criticisms with regard to the empirical studies are: (1) the lack of a universal performance concept (and measures), (2) the lack of consistency in defining the so-called 'High Performance Work Practices/Systems' and (3) the uncertainty about the precise nature of the linkage between HRM and performance (Guest, 1997; Delery & Doty, 1996; Dyer & Reeves, 1995). With regard to this last remark, Ulrich (1997) stated that early attempts to link HRM with organisational performance relied on the common-sense belief that improving the way people are managed inevitably leads to enhanced firm performance, without seeking to justify this linkage in theoretical terms. Until now, the need for theory refinement is pronounced (Guest, 2001; Ramsay, 2000). This is the point where Wright and McMahan (1992) come in. Empirical work based upon the theories proposed by these authors should be able to answer this 'theoretical gap'. The question presents itself whether it is a matter of '*no theory*', '*old theory*' or '*good theory, bad research*'.

The purpose of this literature review is to map out the different theories that can be useful in understanding and explaining the complex relationship between HRM and organisational performance. Therefore, we will use the framework of Wright & McMahan (1992) and extend it with other relevant theories. This 'theory mapping' should enable us to decide upon the presence or absence of theory within this research field.

Theoretical frameworks for studying SHRM

Our point of departure is a framework to study SHRM proposed by Wright & McMahan (1992). The authors define SHRM as *'the pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals'*. Whereas HRM used to have a rather administrative function until the late seventies, the emphasis in this definition is on its (strategic) role in achieving broader organisational objectives and on the introduction of well-considered combinations of HR practices, both in terms of internal and external fit (cf. infra). With this definition in mind, Wright & McMahan (1992) state that SHRM theory should be concerned with (1) the determinants of decisions about human resource practices, (2) the composition of the human resource capital pool, (3) the specification of required human resource behaviours and (4) the effectiveness of these decisions given various business strategies and/or competitive situations. This macro-organisational approach[i] to viewing the role and function of HRM in the larger organisation is modelled in **Figure 1**.

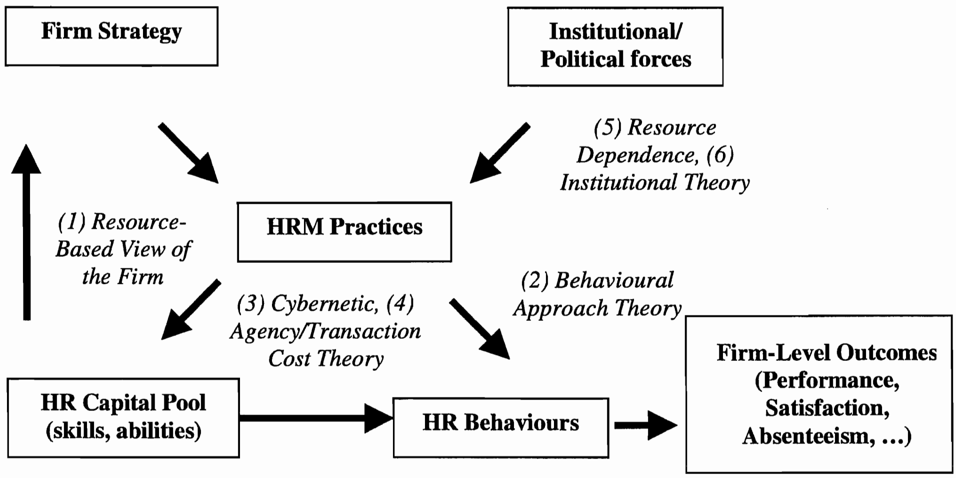

Figure 1 Theoretical frameworks for studying Strategic Human Resource Management (Wright & McMahan, 1992)

The authors examine six theoretical models that shed some light on the determinants of HR practices and/or the HRM-performance relationship. According to them, these theories can be grouped as follows: (1) the resource-based view of the firm, (2) the behavioural approach, (3) the cybernatic systems perspective and (4) the agency/transaction cost theory consider firm strategy as the main determinant of HR practices. Non-strategic forces on the other hand are covered by (5) the resource dependence approach and (6) institutional theory. In institutional theory, one cannot talk about SHRM in the narrow sense of the word because both political and institutional forces determine the introduction of particular HR practices. Although these forces are not necessarily inconsistent with broader strategy, they are usually not the products of a rational decision-making process.

In what follows, we map out the basic principles of these theories. Throughout the discussion we will extend the framework with other perspectives and theories contributing to a better understanding of the link between (S)HRM and performance. This overview is not chronological, nor is it exhaustive. We describe the different steps of the (S)HRM – performance relationship in a logical sequence and only mention the theoretical aspects insofar they are relevant to our research field. It is our purpose to describe the relevance of these theories to the HRM-performance discussion and to make a comparison between the different approaches.

Resource-based view of the firm: looking inside for competitive advantage

Understanding sources of sustained competitive advantage for firms has become a major area of research in the field of strategic management. Since the 1960's a single framework, traditionally known as SWOT analysis, has been dominantly present in this research area. This model suggests that firms using their internal strengths in exploiting environmental opportunities and neutralising external threats, while avoiding internal weaknesses, are more likely to gain competitive advantage then other firms (Barney, 1995). Until the 1990's most work has tended to focus primarily on analysing a firm's *external* opportunities and threats and has attempted to describe the environmental conditions that favour high levels of firm performance (e.g. the 'five forces model' of Porter, 1980, 1985). During the 1990's the resource-based view (RBV) entered as a major player into the theoretical discussion of strategic management (Barney, 1991, 1995; Conner, 1991; Peteraf, 1993). This theory emphasises the link between *internal* resources of the firm[ii], its strategy and its performance. According to Barney (1991), firm resources fall into three categories: (1) physical, (2) human and (3) organisational capital resources[iii]. Because of its emphasis on human and organisational capital, the theory also became a major player in the debate on of SHRM. Before we describe the value added of this perspective to this research area, we summarise the basics of the RBV (cf. Barney, 1991).

The basics

A firm is said to have a *sustained competitive advantage* when it is implementing a value creating strategy that is not simultaneously implemented by any current or potential competitors ánd when these other firms are unable to duplicate the benefits of this strategy. The latter condition is necessary to make a distinction between a competitive advantage and a sustained competitive advantage. The concept of *sustained* competitive advantage does not refer to the period of calendar time that a firm enjoys a competitive advantage. The question whether or not a competitive advantage is a sustained one depends upon the possibility of duplication by competing or new firms. This statement does not imply that it will last forever. Unanticipated changes in the environment of the firm can turn a source of sustained competitive advantage into a resource no longer valuable to the firm. Not all firm resources hold the potential of sustained competitive advantage. In order to have this potential, a firm resource should be characterised by four criteria: it should be (1) *valuable*, (2) *rare*, (3) *inimitable* and (4) *non substitutable*. In addition, the model assumes that resources vary across firms within an industry or group and that competing firms cannot obtain these resources (easily) from other firms or resource markets. With these assumptions of *resource heterogeneity* and *immobility*, the RBV challenges the neoclassical view of the firm – stating perfect competition, highly mobile and homogeneous firm resources – and has become a new 'theory of the firm', shedding light on the nature of firms and markets (Conner, 1991).

The pool of employees as a source of sustained competitive advantage

Within the area of SHRM, the RBV gives an answer to the question *'When (i.e. under which conditions) do human resources matter (more)?'* and provides a rationale for the reason why employees (labour) and HRM should be considered when striving for or studying competitive advantage. An important contribution in this respect is the article of Wright, McMahan & McWilliams (1994). They checked whether the assumptions of human resource heterogeneity and immobility hold and whether the aforementioned criteria can be attributed to the pool of human capital under the firm's control in a direct employment relationship. Their contribution provides a theoretical discussion of the reason why and the circumstances under which human resources can be a source of sustained competitive advantage. We summarise their main conclusions in **Table 1**.

Table 1 Human resources and sustained competitive advantage (assumptions)

Assumptions Human resources are	
1. ***heterogeneous***	Firms have different jobs which require different skills (demand for labour is heterogeneous). Individuals differ in both the type and level of their skills (supply of labour is heterogeneous) (Steffy & Maurer, 1988). Because both demand for and supply of labour are heterogeneous, human resources will vary across firms.
2. ***immobile***	Human resources are not perfectly mobile because there are substantial transaction costs involved in moving from one employment situation to another (Abelson & Baysinger, 1984). An employee will only leave a firm if he/she has considered advantages and disadvantages of all the alternatives and finally finds an attractive alternative. Even if human resources are mobile, characteristics of the human capital pool such as causal ambiguity, social complexity and historical conditions (cf. infra) will result in an immobile sustained competitive advantage.

Table 1 Human resources and sustained competitive advantage (attributes)

Attributes Human resources are	
1. *valuable*	
	Because of the heterogeneity in demand for and supply of labour, there is variance in individuals' contribution to the firm. This argues that human capital can create value to the firm. A person with good communicative skills will perform better in a sales job then a person with less communicative skills. In order to become a ceramist, it is not necessary to know a lot of languages, but one should be handy. The authors refer to work in the area of utility analysis that provided both a rationale for the ways in which human capital resources increase firm value and techniques for estimating this value (Cronshaw & Alexander, 1986; Boudreau & Berger, 1985; Boudreau, 1983).
2. *rare*	
	To the extent that jobs require skills which allow for variance in individual contributions, i.e. when job-relevant skills are not a commodity, these skills should be normally distributed in the population. Thus, under these conditions, high quality – with regard to one job – human resources are rare. Peteraf (1993) makes a distinction between fixed and quasi fixed resources in this context. *Fixed resources* are limited in supply and their supply cannot be expanded (rare by definition). *Quasi fixed resources* are resources limited in the short run, but which can be renewed and expanded incrementally within the firm that utilises them. Utilisation of such resources may in fact augment them, e.g. some skills and knowledge of a person can be expanded through one's experience or training. Prahalad & Hamel (1990) describe how core competencies, particularly those which involve collective learning and are knowledge-based are enhanced as they are applied. This may be another argument for the reason why people can enhance firm value (cf. human resources are valuable).
3. *inimitable*	
	In order to imitate human resources, the competitor must be able to identify exactly the source of competitive advantage, i.e. the exact components of the human capital resource pool which are providing the advantage. Second, the competitor must be able to duplicate both the relevant components of the human capital resource pool ánd the circumstances under which these resources function. Three concepts play an important role in the inimitability of human resources: (1) unique historical conditions, (2) causal ambiguity and (3) social complexity.

Attributes Human resources are	
3. *inimitable (continued)*	
	Unique historical conditions determine a firm's place in time and space (Barney, 1991). The ability of a firm to acquire and exploit particular firm resources may depend upon its unique history. Dierickx & Cool (1989) maintain that how imitable an asset is, depends upon the nature of the process by which it was accumulated. Their development is *'path dependent'* and history thus matters. Would-be-imitators are hindered by the difficulty of discovering and repeating the developmental process and by the considerable lag involved. *Causal ambiguity* refers to uncertainty regarding the causes of efficiency differences among firms and exists when the link between a firm's resources and a competitive advantage is imperfectly understood. If would-be-imitators cannot identify specifically the way in which a firm resource acts as a competitive advantage, it is virtually impossible to imitate the responsible resources (Lippman & Rumelt, 1982). *Social complexity* refers to the fact that many social phenomena are so complex as to make it impossible to manage or influence them systematically. Human resources and social complexity are intrinsically linked because social complexity, by definition, results from human interactions (Berger & Luckmann, 1985). Mueller (1996) states that *social architecture* is created and reshaped not only (or even primarily) at senior management level in the organisation, but at other levels too, especially on the shop-floor. It results from ongoing skill formation activities, forms of spontaneous co-operation, the tacit knowledge that accumulates as the unplanned side-effect of intentional corporate behaviour. Given the low visibility of these processes, the social architecture is likely to be resistant to easy imitation and therefore a valuable strategic asset. Human resources characterised by the above attributes are *immobile* and thus bound to the firm.
4. *non-substitutable*	
	Wright & al. (1994) argue that human resources are one of the few firm resources which have the potential to (1) not become obsolete and (2) be transferable across a variety of technologies, products and markets. It might be possible to substitute human resources in the short term, but it is highly unlikely that such substitution could result in a sustained competitive advantage. The following example elucidates their reasoning. Firm A has a sustained competitive advantage thanks to its highly skilled and well developed human capital pool. Firm B introduces a new technology and increases productivity such that productivity differences stemming from A's highly skilled and commited workers disappear. If the technology can be purchased in the marketplace (which is likely) and firm A buys it, it wil likely generate the same productivity increases and its highly skilled work force will once again constitute a sustained competitive advantage.

The authors conclude that the human capital pool is a potential source of sustained competitive advantage. However, the story does not end here. Despite its growing acceptance and the fact that this perspective explains the importance of the human capital pool to firm competitiveness, it does not specifically deal with how an organisation can develop and support the human resources it needs for competitive advantage (Delery & Shaw, 2001). Having human resources with the right knowledge, skills and abilities (KSAs) does not yet mean that the firm will invest in its people. Even if the firm is prepared to invest, this does not yet mean that this investment will yield a return, i.e. that employees will behave automatically in accordance with broader strategy and that the firm will outperform its competitors.

The HR system as a source of sustained competitive advantage

The high potential human capital pool is thus a necessary but not sufficient condition to achieve high performance. It should be *managed* and *controlled* in a way that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness. As far as HR practices are concerned, Wright & al. (1994) develop the argument that while a firm's human resource capital pool may be a source of sustained competitive advantage, it is virtually impossible for HR practices to be rare, inimitable and non-substitutable. The role of HR practices is one of 'building' the human capital pool and stimulating the kinds of human behaviour that actually constitute an advantage. Other firms may copy the practices, but if they lack the quality of the employee talent, they will not compete away the advantage, or vice versa (Boxall & Steeneveld, 1999). Although the authors admit that HR practices are the most direct influence on the human capital of a firm, they do not ascribe a primary role to them. Mueller (1996) as well admits that strategic HR practices are important in that they facilitate the processes underlying the social architecture, but he does not attribute them a role of overriding importance. Other academics (Becker & Huselid, 1998; Delery & Shaw, 1998; Huselid & al., 1997; Becker & Gerhart, 1996; Barney, 1995; Lado & Wilson, 1994) do so and state that the HR system can be a source of competitive advantage as well. An HR system in this context is defined as 'a set of distinct but interrelated activities, functions and processes that are directed at attracting, developing and maintaining (or disposing of) a firm's human resources' (Lado & Wilson, 1994). In order to be successful the conditions of *internal (or* *horizontal)* and *external (or vertical) fit* should to be met (Delery, 1998). Internal fit refers to the alignment of HR practices into a coherent system of practices that support one another. External fit stands for the alignment of the HR system with broader organisational strategy and implies that if strategy changes, the HR system has to change as well. Fit and flexibility cannot be separated.

How does this fit in with the logic of the RBV? The HR system can, in accordance with the pool of employees, be described as a strategic asset. *Strategic assets* are 'the set of difficult to imitate, scarce, appropriable and specialised *resources* and *capabilities* that bestow a firm's competitive advantage' (Amit & Schoemaker, 1993). Of importance here is the distinction made between resources and capabilities. *Resources* are stocks of available factors that are owned or controlled by the firm. These resources consist of physical or financial assets, human capital or knowhow that can be traded (cf. physical and human capital as defined by Barney, 1991). *Capabilities,* on the other hand, refer to a firm's capacity to deploy resources, usually in combination and by using organisational processes, to effect a desired end. These are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm's resources (cf. organisational capital as defined by Barney, 1991). Unlike resources, capabilities are based on developing, carrying and exchanging information through the firm's human capital. Whereas the pool of employees can be seen as a resource, the HR system is a capability.

The emphasis on '*firm-specific tangible or intangible processes*', '*developed over time*' and '*complex interactions*' in the definition of capabilities is very important because it reminds of the aforementioned barriers to imitation: '*causal ambiguity*', '*path dependency*' and '*social complexity*'. These characteristics make it difficult to imitate the HR system that is deeply embedded in an organisation. It is especially difficult to grasp the precise mechanisms by which the interplay of human resource practices generates value (Becker & Gerhart, 1996). Until now, researchers are struggling with the issue of interrelationships between practices. Is this relationship between practices additive (1+1=2), substitutable (1+1=1) or synergistic (1+1=3 or 1+1=0) (Delery, 1998)? Moreover, the HR system and the pool of employees are developed over time and cannot be purchased in the market. The subtle changes to routines in the social architecture of a firm can prevent imitators from copying the system successfully (Mueller, 1996). Further, even if they can copy a part of the system, there will be limits on management's ability to replicate socially complex elements such as culture and interpersonal relationships (Boxall & Steeneveld, 1996). The *inimitability* of an HR system implies *rareness* and to a certain extent *non-substitutability*. Moreover, because of its interaction with the human capital pool, it is also *valuable*. In short, the HR system can be a *source of sustained competitive advantage*.

Relevance to the HRM-performance discussion

The distinction between 'human *capital* advantage', 'human *process* advantage' and 'human *resource* advantage', made by Boxall (1996) summarises the above. A *human capital advantage* results from employing people with competitively valuable knowledge, skills and abilities. A *human process advantage* is a function of difficult-to-imitate, highly evolved processes within the firm, e.g. mechanisms of cooperation and/or communication, teamwork or quality circles. One could say that these processes create the working conditions of the employees and thus the possibilities to unfold their talents. Accordingly, a *human resource advantage* is the superiority of a firm's HRM over another's - implying higher performance or sustained competitive advantage - and can be thought of as the product of its human capital and human process advantages. The role of HR practices is twofold in that they can influence both the human capital pool and the work processes. On the one hand, they can lead to competitive advantage through recruiting and developing a unique and valuable human capital pool. On the other hand, they may also lead to competitive advantage as part of organisational capital by providing firms with the necessary conditions to make the most of the employees' talents and with both increased fit and flexibility (Wright & Snell, 1998).

The resource-based view provides a rationale for the reason why people and HR practices should be taken into account when studying the HRM-performance relationship. The theory elaborates on the conditions under which the pool of employees and HRM enable and enhance broader organisational strategy in order to strive for survival or higher performance. In describing these conditions, elements from both economical and sociological theory are taken into account. However, the theory does not provide guidelines for the choice of people or HR practices and does not describe the mechanism through which the interaction of both can lead to higher performance. The theory only describes the left side of the framework. Empirical research on the HRM-performance relationship needs more.

Human capital theory: to invest or not to invest?

Although Wright & McMahan (1992) do not explicitly mention human capital theory (Becker, 1964), we would like to draw the attention on this economical perspective because it sheds some light on the mechanism linking HRM with performance. We move towards the right side of the framework.

The basics

According to human capital theory, people possess knowledge, skills and abilities (KSAs) that are of economic value to the firm. Because of this economic value, a firm should invest to increase these KSAs, for example through HRM. These investments entail direct and indirect (opportunity) costs and are thus - from an economic point of view - only justified if they produce future returns to the firm in the form of increased worker productivity and overall firm performance. Both costs and benefits should thus be evaluated. In order to exert this 'cost/benefit' analysis, one can use economic criteria such as the 'net present-value method' and the 'internal rate of return method' (Barcala & al., 1999) or formulas trying to capture the added value of certain HR practices as proposed by utility analysis theory (e.g. efforts to quantify the dollar value of improvements in employee selection; Boudreau, 1983). If the balance turns out to be positive, the firm will invest time and money in its people. These investments in HR activities are especially aimed at increasing the workers' capabilities of performing activities of economic value. A logical consequence is that the higher the potential of employees to contribute to the firm, the more likely it will be for the firm to invest (more) in HR activities (Youndt & al., 1996; Truss, 2001).

Relevance to the HRM-performance discussion

In accordance with the RBV, human capital theory recognises the importance of the composition of the human capital pool, HRM and the potential of both to contribute to the firm. Both perspectives thus provide a rationale for the investment in human capital and consider human resources as more than a cost to be minimised.

As mentioned before, the RBV does not describe the mechanism through which the pool of employees and HRM can lead to higher performance. Human capital theory lifts a corner of the veil. The RBV elaborates on the conditions under which human resources form a source of sustained competitive advantage. One of these conditions is their economic *value* to the firm. This economic value, expressed in terms of KSAs, is the point of departure of human capital theory. We use the HRM-performance model of Delery & Shaw (2001) to make our point clear (**Figure 2**).

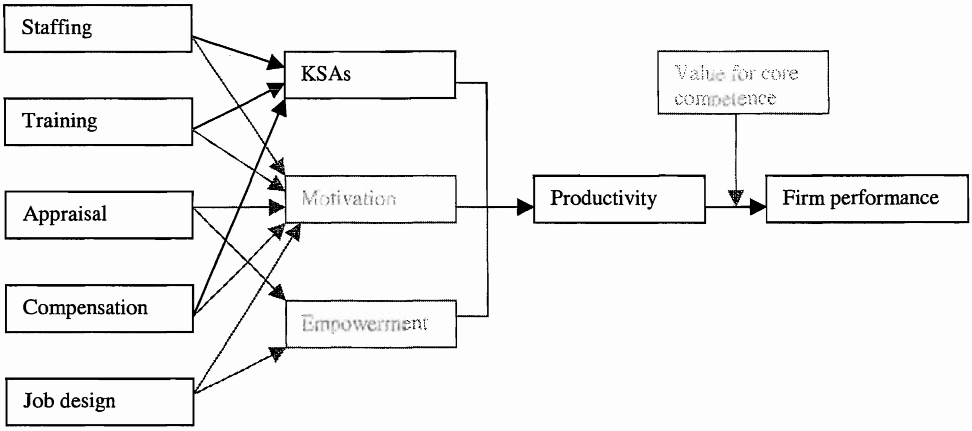

Figure 2 The human capital model of the relationship between HR practices, work force characteristics, work force performance and firm performance (Delery & Shaw, 2001)

In what follows, we only describe the building blocks of the framework that are relevant at this point. The other cornerstones of the model, such as motivation, will be discussed later.

From an economic point of view, the HRM issue is just a simple investment problem. All activities that will enhance the KSAs of the workforce and subsequently productivity and firm performance are worth to be considered. If benefits outperform costs, the firm will invest.

From an 'HRM-firm performance' point of view, the mediating role of KSAs and productivity is very interesting. The added value of knowledge, skills and abilities is expressed in terms of productivity. HR practices can enhance KSAs of employees by means of good selection procedures or training. If KSAs increase, so will productivity. In turn, this productivity increase will have a positive impact on firm performance. HRM does thus not influence firm performance directly, but through a *causal chain* of mediating variables.

With respect to the mediating performance variables, many authors (Guest, 2001; Rogers & Wright, 1998; Becker & al., 1997; Dyer & Reeves, 1995) believe that outcomes can be differentiated at hierarchical levels, with performance at one level contributing (along with other factors) to outcomes at the next level. Although the models found in literature differ in the number of levels and the exact outcomes, a generic form of the model is that HR practices have their most direct impact on *employee performance* and subsequently to what we call 'operational' performance (e.g. productivity). This operational performance, in turn, contributes to higher level organisational performance constructs, such as financial accounting performance and market performance. By mentioning employee performance as the first outcome in the 'performance chain', we shift our focus from the organisational level (macro) of analysis to the individual level (micro).

Behavioural approach theory: the missing link

How can one be sure that a promising human capital pool and the willingness of the firm to invest in it through HRM, will indeed end up in higher overall firm performance? The answer is 'investing in the right HR practices'. But how can one distinguish them? The answer is partly found in the behavioural approach theory.

The basics

The advocates of the behavioural perspective state that different strategies require different behaviours and, therefore, different HR practices to elicit and reinforce those behaviours. The resulting behaviours are said to subsequently promote enhanced organisational performance (Erras, 2002; Guest, 1997; Snell, 1992; Schuler & Jackson, 1987). This view is very useful because it provides the missing link between strategy, the human capital pool, investment in HRM and performance in the RBV, namely *needed* and *actual employee behaviour*. Through the introduction of employee behaviour, it also furthers the causal chain of performance outcomes as proposed by the human capital theory. The definition that has been given to HR practices in the behavioural perspective emphasises the role of employee behaviour. Schuler (1992) defines HR practices as 'all those activities affecting behaviour of individuals in their efforts to formulate and implement the strategic needs of the business'. Jackson & al. (1989) state that HR practices are 'tools for shaping patterns of behaviour that integrate the activities of individuals within an organisation, thereby helping to orchestrate the achievement of organisational goals and objectives'. HR practices should thus be matched not only with competitive strategies, but also with (the perceptions of) needed role behaviours from the employees (Schuler & Jackson, 1987). The conceptual framework in **Table 2** is based upon the work of Guest (1997) and visualises the approach.

Table 2 The link between HRM and performance in the behavioural framework

HRM strategy[iv] →	HR practices →	Employee behaviour →	Operational outcomes →	Financial/ accounting outcomes
	Selection			
		Extra role behaviour/ effort	Productivity	
Innovation	Careers			Return on investment
	Training	Cooperation	Quality/ Customer complaints	
				Profits
Quality	Appraisal	Organisational citizenship		
			Innovation	
	Rewards			
		Absenteeism		Value added/ employee
Cost	Participation			
		Labour turnover	Conflict	
	Job design			

A firm traces out an organisational strategy in answer to strategic business needs such as management's overall plan for survival, growth, adaptability or profitability. In order to enable and enhance this strategy certain employee behaviours are necessary. The work of Schuler & Jackson (1987) can serve as a clear-cut example. They state that firms pursuing an innovation strategy[v], require employees with (a) a high degree of creative behaviour, (b) a longer-term focus, (c) a relatively high level of cooperative, interdependent behaviour, (d) a moderate degree of concern for quality and quantity, (e) an equal degree of concern for process and results, (f) a greater degree of risk taking and (g) a high tolerance of ambiguity and uncertainty. Once the needed role behaviour is defined, one has to decide upon the HR practices that should be introduced in order to adjust the actual role behaviour in the right direction. In this respect, Pfeffer (1981) states that '*behaviour is guided by purpose*'. In the case of an innovation strategy, Schuler & Jackson (1987) mention the following HR practices: (a) jobs that require close interaction and coordination among individuals, (b) performance appraisals that are more likely to reflect longer-term and group-based achievements, (c) jobs that allow employees to develop skills that can be used in other positions in the firm, (d) compensation systems that emphasise internal equity rather than external or market-based equity, (e) pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components and (f) broad career paths to reinforce the development of a broad range of skills. The underlying assumption is that appropriate HR practices lead to the desired employees' behaviour. Although not mentioned in the framework, a necessary condition is that the workforce has the appropriate knowledge, skills and abilities.

The behavioural approach viewed as an open system

Whereas the model of Guest (1997) is rather static, Wright & Snell (1991) propose a more dynamic framework. Although both models are causal, Wright & Snell (1991) leave some room for a constant monitoring and/or adjustment of the HR practices and outcomes (cf. infra). The authors portray the behavioural approach in an *open system model* (**Figure 3**) receiving inputs from the environment and then transforming those inputs into some outputs for an outside group or system. They propose that the inputs in the HR system are competencies (KSAs) of the individuals in the organisation that the firm must import from its external environment. The throughput process focuses on the behaviours of those individuals in the organisational system. Finally the output consist of both performance and affective outcomes and is fully determined by the input and throughput processes. *Affective outcomes* consist in any feelings that employees have as result of being part of the organisation, e.g. job satisfaction or involvement. *Performance outcomes* include all aspects of performance such as the quality of the product or service, or profits. Although not present in **Figure 3**, central to open systems models is the idea of a negative feedback loop that informs the system that it is not functioning effectively, thereby allowing for changes to reduce any discrepancies. If the outputs are measured, they can have a signalling function. If the desired output(level) is not obtained, HR policy can be changed in order to influence the competencies and/or the behaviours of the human capital pool (*single loop learning*). The output(level) itself can be questioned as well. In this case, one questions the standard that has been set before, evaluates whether it is still adequate and decides whether or not action should be undertaken (*double loop learning*). This concept of circular (feedback) mechanisms stems from cybernatic systems theory, referred to by Wright & McMahan (1992).

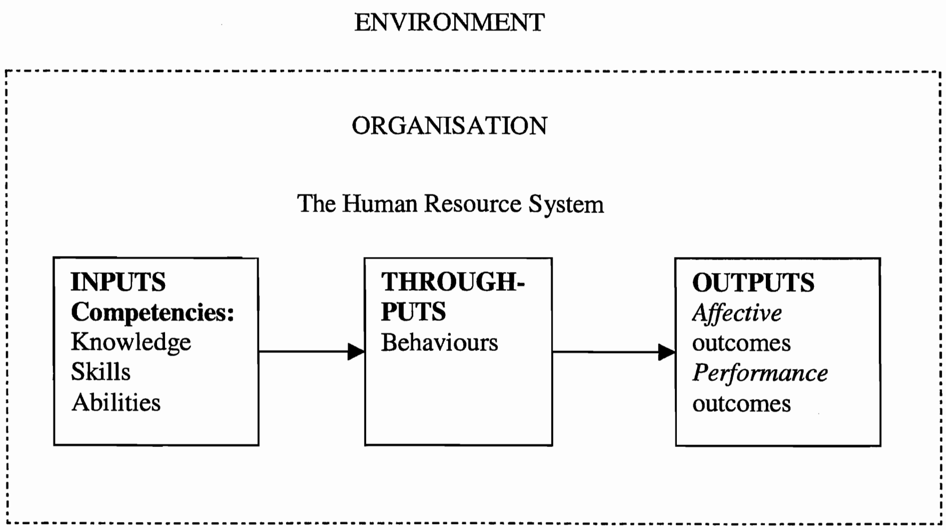

Figure 3 An open system model of the HR system (Wright & Snell, 1991).

The major role of SHRM according to Wright & Snell (1991) is (1) to ensure that the organisation has the competencies necessary to carry out a given strategy and (2) to manage the interface between the competencies and behaviours of the system and the organisational strategy. Therefore, the HR manager should focus on both competence management strategies (Competence Acquisition, Utilisation, Retention and Displacement) and behaviour management strategies (Behaviour Control and Coordination). The authors link specific HR practices with each strategy. Participation, quality circles, job enrichment, promotions or transfers e.g. can serve as methods for Competence Utilisation. Performance appraisal and compensation practices on the other hand are techniques in order to Control Behaviour. The purpose of their article is to show how different HR practices can be integrated into a holistic activity. The more congruence that is achieved among the HR practices, the higher will be the effectiveness (output) of HR in general (*internal fit*). In addition, they also state that the HR practices should be integrated with the strategic business plan in order to achieve high performance (*external fit*).

Before we proceed, we would like to draw attention to the difference between an HR system in the RBV and an HR system as defined by Wright & Snell (1991). In the RBV, the HR system refers to the interrelationships between practices. The question is asked whether practices used by the organisation fit into a coherent system or 'bundle' of practices that enhance and support the effectiveness of one another (Delery & Doty, 1996; McDuffie, 1995). Wright & Snell (1991) also mention the importance of internal fit, but in their open system approach the HR system consists of more elements than the 'bundled' HR practices. The competencies and behaviours of the human capital pool as well as their performance belong to the system as well. In what follows, we will use the term HR system as used in the RBV.

Relevance to the HRM-performance discussion

As mentioned before, the behavioural perspective, the human capital theory and the RBV are complementary (Becker & Huselid, 1998). The latter emphasises the *attributes* required so that firm resources or capabilities can generate a competitive advantage, the two former theories focus on the mechanism through which strategy can be enabled or enhanced in order to compete. Because of this complementarity, these perspectives are followed with much greater frequency in empirical research on the HRM-performance link than other frameworks (Delery & Shaw, 1998).

The RBV as well as the behavioural approach emphasises the need for internal and external fit in order to achieve high performance. And fit implies flexibility. The 'open systems approach' to view the HRM-performance relationship is very interesting in this respect because it provides a dynamic model of constant monitoring and internal adjustment.

Strategy, behaviour and HR practices are not seen as static facts, but can be subject to changes.

Behavioural process theories: opening the black box

Although the behavioural perspective recognises the role of HR practices, the mediating role of competencies (KSAs) and the link between HRM and behaviour, this theory does not focus on the internal thoughts or cognitive processes – *the black box* – that influence decisions about workplace behaviour (Takeuchi, 2002; Ramsay & al., 2000). In order to get a full picture, the model should be extended with behavioural process theories such as 'expectancy' (Vroom, 1964), 'equity' (Adams, 1963) or 'social exchange' (Blau, 1964) theory. These psychological theories highlight the mediating role of attitudes, in particular of motivation.

The basics

Each of the above theories addresses the basic question: 'What determines the willingness of an individual to exert personal effort to work at tasks that contribute to the performance of the work unit and the organisation?'. The answer, according to the expectancy theory, is found in a person's beliefs regarding effort-performance relationships and the outcomes associated with different levels of performance accomplishment. 'People will do what they can do when they want to do it' (Schermerhorn & al., 1998). An individual will (be motivated to) act in a certain way based on (1) the expectation that the act will be followed by a given outcome and (2) the attractiveness of that outcome to the individual. Equity theory states that each employee seeks a fair balance between what he puts into his/her job (e.g. effort, skills, ability, tolerance or commitment) and what he/she gets out of it (e.g. financial rewards, benefits, recognition, responsibility, training or promotion). In order to have an idea of what constitutes a fair balance, he/she will compare his/her own situation with other referents on the workfloor or in the market place, e.g. colleagues or employees exerting the same job in an other company. If the employee feels that his/her inputs are adequately and fairly rewarded, then he/she will be motivated. If not, he/she will become demotivated and will act in a way to correct this 'unfair' situation, e.g. by reducing effort, being disruptive or seeking an alternative job. These actions imply a decrease in individual performance and subsequently in organisational performance. Finally, in the same line of reasoning, social exchange theorists examine the exchanges that occur between employers and employees regarding perceptions of reciprocity. The essence is that employees feel obliged to respond equitably to treatments from others, e.g. one's employer. They seek a balance in the exchange relationship with the organisation and will align their attitudes and/or behaviours to the degree of the employer's commitment to them.

Relevance to the HRM-performance discussion

Although the aforementioned theories are primarily concerned with motivation, they also say something about the link between motivation and individual performance. It proposes that high performance depends on high motivation, possession of the necessary skills and abilities, an appropriate role and understanding of that role (Guest, 2001; Guest, 1997). It's clear that HR practices can play an important role. HRM decides upon the (financial) outcome an employee will get, but also on actions that have to be undertaken in order to guarantee that an employee has the necessary skills and abilities and that he/she is assigned to a job he/she can handle. Moreover, HR practices influence what employees can expect from their job or employer (e.g. through reliable job descriptions, opportunities for promotion) and what they will get in return (e.g. training, participation, rewards, financial participation). We mention the research on psychological contracts in this respect. HR practices can shape employee beliefs regarding the terms of the employee-organisation exchange relationship and the alignment of various HR practices can help an organisation to send a consistent message to employees regarding mutual expectations (Rousseau & Greller, 1994; Guest, 1998). This stream of research focuses on individual perceptions stemming from a set of practices. Both psychological contract and individual perceptions are best viewed as the linking mechanism between HR practices and individual attitudes and behaviours (Wright & Boswell, 2002). We extend the framework in **Table 2** to visualise the above (**Table 3**). Next to motivation, other attitudes such as commitment, involvement and satisfaction are mentioned.

Table 3 The link between HRM and performance

HRM strategy[vi] →	**HR practices** →		**Employee attitudes** →	**Employee behaviour**
				Extra role behaviour/ effort
	Selection			
			Motivation	
Innovation	Careers			
				Cooperation
	Training	*Individual perceptions Psychological contract*	Commitment	
Quality	Appraisal			Organisational citizenship
			Satisfaction	
	Rewards			
				Absenteeism
Cost	Participation		Involvement	
	Job design			Labour turnover

The underlying assumption is that appropriate HR practices tap employees' attitudes[vii]. Depending on the attitude one is focusing on, these HR practices are labelled 'High commitment work practices' or 'High involvement work practices'. In turn, these attitudes influence individual behaviour and performance (Guest, 2001). Both causal links have been studied a great deal in the field of industrial psychology.

In **Table 3** attitudes have a mediating role between HR practices and behaviours. In the open systems approach of Wright & Snell (1991), attitudes are seen as affective outcomes, an output of behaviour. We are inclined to follow the view of Guest (1997, 2001) and rather see attitudes as a consequence of HR practices, which can influence behaviour in interaction with competencies (KSAs). Recent articles (Takeuchi, 2002; Guest, 2001; Ramsay & al., 2000) support our choice. In a review article, Guest (2001) mentions two studies in this respect. The first one indicates that a greater use of HR practices is associated directly and indirectly, through satisfaction and commitment, with a range of positive outcomes. The second survey shows a path from HR practices to performance through commitment and flexibility. Ramsay & al. (2000), in turn, tested three 'High performance work systems – organisational performance' models with different mediating variables: (1) the high-commitment management model (commitment), (2) the high-involvement management model (discretion) and (3) the labour process model (job strain). The first model stresses the contribution of HR practices to employee commitment as the key to performance, while the second model attaches more importance to the role of discretion. Both models assume that the introduction of HR practices goes hand in hand with positive employee outcomes and subsequently high organisational performance. Conversely, the labour process model conceptualises that HPWS practices lead directly or indirectly (through enhanced work intensification, insecurity and discretion) to stress. This negative employee outcome subsequently leads to improved performance. Although the results called all three of the models into question, their attempt shows that introducing mediating variables such as attitudes and other job related characteristics can enrich the HRM-performance discussion and perhaps the theory building process.

Although a lot of empirical work has been done in the field of industrial psychology and the first studies appear in the SHRM area, research within the latter field has not yet fully explored these theories (Takeuchi, 2002; Monks & Schuster, 2001; Ramsay & al., 2000; Guest, 1997). In spite of this, we think that the key to *open the black box* can be found in this research area.

Agency/transaction cost theory: room for opportunism?

Before we return to the organisational level of analysis, we would like to draw the reader's attention to two, more economic oriented, theories: agency (Jensen & Meckling, 1976) and transaction cost theory (Williamson, 1979). We include both theories at this point because they also seek to explain control of behaviour in organisations, but take issues such as *bounded rationality* and *opportunistic behaviour* into account. Both factors can have implications for the design of the HRM.

The basics

The literature on transaction cost economics is developed in order to explain the relationship between organisational level variables (structure and technology) and individual performance and satisfaction (Jones, 1984). Agency theory on the other hand is developed in the information economics literature to model the relationship between one party (the principal) who delegates work to another (the agent). In the HRM context, the principal is the employer or HR manager, the agent is the employee.

Two central concepts within these theories are *bounded rationality* and *opportunism.* The former refers to the assumption that people are subject to information processing limits, the latter to the assumption that people will act with self-interest and guile in pursuing their own goals. Both are seen as human characteristics serving as major obstacles to human exchange when combined with uncertainty, situations of asymmetric information and small numbers of possible exchange relationships. In short, organisations are viewed as collectives of self-interested people with partially conflicting goals and therefore human exchange will not automatically pass off efficiently. According to the theory, these conflicts can be resolved through the alignment of goals by means of contracts and incentives (Eisenhardt, 1988). 'Fit' in this context refers to the alignment of individual employee interests with those of the firm (Becker & Huselid, 1998). The costs associated with establishing efficient contracts between parties are called *transaction or agency costs.* The purpose is to find the first-best solution under the circumstances of opportunistic behaviour, uncertainty and asymmetric information, while minimising transaction costs.

Although non-strategic determinants (e.g. opportunistic behaviour, competing interests) are entering the story, we mention both theories here because the founders of these theories believe that one can cope with these problems in a 'rational' way, by designing the optimal contract and using the right incentives. In order to illustrate our reasoning, we give the following HR example. An employer has to hire an employee to produce high quality products. If quality is not perfect, the employer cannot sell the product and will suffer great losses. A candidate applies and although he/she seems quite convincing, the employer does not know whether the candidate will exert his/her task well once he/she's hired (*moral hazard*). One way to avoid this problem is to make the salary of the employee dependent upon the quality of his/her products. High quality means high salary, low quality means low salary. This performance-based pay is one possible HR practice in order to steer the employee's (opportunistic) behaviour.

Relevance to the HRM-performance discussion

How does this fit in with the HRM-performance discussion? First of all, the central premise of agency/transaction cost theory is that employees have strong incentives to shirk and freeride and no incentive to increase their performance *unless* task conditions allow them to demonstrate discrete performance contributions and to obtain rewards that accrue from increased performance (Jones, 1984). The role of HR practices is to create these optimal task conditions (Wright & McMahan, 1992). Once again, HR practices are seen as steering mechanisms to align employees' behaviour with organisational objectives. Agency/transaction cost theory implicitly recognise the potential role of HRM and people in achieving competitive advantage. A second remark concerns the insights this theory can provide to broader HRM strategy literature. MacDuffie (1995) summarised the necessary conditions for an HRM-performance relationship as follows: (1) when employees possess knowledge and skills the managers lack, (2) when employees are motivated to apply this skill and knowledge through discretionary effort and (3) when the firm's business or production strategy can only be achieved when employees contribute such discretionary effort. As far as (2) and (3) are concerned, both have been mentioned in the behavioural approach. The first condition however emphasises the information asymmetry between employer and employee and the need for mechanisms to overcome this situation. The added value of contracting literature can be found here: organisations that are more successful in eliciting the appropriate use of information will have a competitive advantage (Becker & Huselid, 1998). Firms understand that employees have valuable and specific knowledge and many have no choice but to rely on employees to use that information to successfully implement the firm's strategy. Direct participation or teams are two well-known examples of HR practices in this context.

In accordance with Guest (2001), we describe the interest of economists in human resources issues as a positive development in theory building. However, economical theory is narrow and simplistic (especially in comparison with sociological or psychological perspectives). As mentioned before, the aim is to find the first-best solution under particular circumstances, while minimising transaction costs. This approach reduces the design of HRM to a mathematical problem and simplifies reality considerably. Moreover, economists tend to use a short list of highly specific and easily quantifiable HR practices. Payments systems and training for example figure prominently when economic oriented theories, such as human capital or agency theory, are tested in the HRM context. Calculating the economic value of practices such as structural participation is more difficult. The effect of quality circles on productivity for example is not unambiguous. On the one hand, there is a time-loss due to the meeting time, on the other hand there may be productivity gains thanks to the problem-solving or creative skills of the employees participating in the quality circle. Contracting literature has been extensively applied to executive compensation issues, to a lesser extent to training. It has not been widely extended to other HR practices.

What about the environment and political games?

As mentioned before, we had to include the individual level of analysis in an attempt to open the black box and enhance our understanding of the link between HRM and organisational performance. In the following paragraph we return to the organisational level of analysis.

Although Wright & Snell (1991) proposed an 'open systems approach' with regard to the HR system within the organisation, all of the perspectives discussed above approach the *organisation* as a rather closed system. Any interaction with its broader environment is underplayed or even ignored. Truss (2001) for example argued that the influence of the external environment should not be discounted to the extent suggested by the resource-based view. Wright & McMahan (1992) on the other hand state that the behavioural perspective views the organisation as a rather closed system.

Another criticism with regard to the aforementioned perspectives is that they all adopt a 'rational model' of organisations and activities within those organisations (Mueller, 1996). This view suggests that the fit between organisation and individual represents a quite attainable objective, including the reciprocity of needs and interest, as well as emphasising the importance of cooperation. This perspective has been the implicit assumption of most theories and research in SHRM and remained unquestioned for a long time. Despite its obvious contributions, this perspective has been criticised as being naive and overly optimistic about the possibility of maximising individual and organisational needs and underplaying the issues of competing interests, power and politics (Ferris & Judge, 1991). The findings of Truss (2001) also lend support to the argument that the informal organisation has a key role to play in the HRM process, such that informal practices and norms of behaviour interact with formal HR policies. People can act in a way either to enable or constrain the realisation of formal organisation policy.

Wright & McMahan (1992) recognise both critiques and focus on non-strategic theories of HRM such as resource-dependence, political influence and institutional theory. According to them, these theories describe non-strategic and possibly even dysfunctional determinants of HRM practices. Moreover, institutional theory also takes the wider environment into account. As the way in which HRM is shaped will certainly influence its performance, we cannot ignore these theories.

Resource dependence and political influence theory: power & politics are facts of life

The basics

The resource dependence theory (Pfeffer & Salancik, 1978) focuses predominantly on power relationships within and among organisations. It assumes that all organisations depend on a flow of valuable resources into the organisation in order to continue functioning. The ability to exercise control over these resources can provide an individual or group with an important source of power (Pfeffer, 1981). Power will increase when the resource becomes more scarce and thus more valuable. The political influence perspective follows naturally from this line of argument and characterises organisations as 'battlegrounds' where various internal and external stakeholders compete to influence critical decision criteria in a way that furthers their own interests (Kanter & Brinkerhoff, 1981). The most powerful stakeholder will be the winner. And the winner will become even more powerful. Ferris & Judge (1991) describe this as a contest between political players to construct organisational reality (cf. Berger & Luckmann, 1985) in a manner consistent with their own political interest. They see this construction of reality as 'the creation and management of shared meanings by individuals'. In order to establish these meanings, some individuals will act upon the complexity and ambiguity that are inherent in an organisation. The 'shared meanings' provide guidelines for future interpretations and organisational behaviour. The underlying idea is thus to *manage* the meaning of the situation *to produce the outcomes desired.* The emphasis is on deliberate attempts to control the shared meanings of phenomena. Routine or mindless activity and types of deliberate behaviour that are not specifically geared toward creating, maintaining or altering shared meanings are not considered as political behaviour.

According to Ferris & Judge (1991), HRM is one of the critical decision areas in an organisation. Wright & McMahan (1992) also believe that some (HR) actions or practices are not resulting from proactive and strategic decision making, but are undertaken to create and/or maintain a certain situation or position. Although the point of departure is comparable to the one in agency/transaction cost theory, the political influence perspective does not believe one can cope with these political forces or power issues in a rational way.

Relevance to the HRM-performance link

These perspectives have not yet been explored in the empirical HRM-performance research. However, Wright & McMahan (1992) consider it as a potential framework to explain and understand non-strategic, and sometimes even dysfunctional, determinants of HRM. In order to enforce their arguments they make an appeal on a few studies of Pfeffer and colleagues (Pfeffer & Moore, 1980; Pfeffer & Cohen, 1984; Pfeffer & Davis-Blake, 1987; Pfeffer & Langton, 1988) aimed at examining the characteristics of the organisational context that influence HR practices and on a review article of Ferris & Judge (1991). In what follows, we will summarise the conclusions of these studies.

Pfeffer & Moore (1980) found out that the relative power base of a university department, i.e. the extent to which the department had control over scarce resources of value to the organisation, affects the budget allocation to that department. Seven years later, Pfeffer & Davis-Blake (1987) drew the parallel with pay allocation schemes and hypothesised that pay allocations are not only based on performance criteria, but also on power. The authors found support for this assertion. The same functions in public and private institutions were compared and it seemed that these functions were paid higher in the institution in which the functions deemed more important. Another study (Pfeffer & Langton, 1988) examined other determinants of reward distributions in organisations. The authors started from the assumption that units in which individuals have equal outputs or equal degrees of human capital, i.e. experience or productivity, will have more equal salary distributions than units in which individuals vary more along either inputs or outcomes. A 'rational' assumption typical of human capital theory. Their findings showed that – unless the fact that they controlled for variations in human capital – private control, larger departmental size and a greater tendency to work alone were all associated with more dispersed wages. More social contact among departmental members, more democratic and participative departmental governance and more demographic homogeneity were associated with more equal salary distribution. Finally, Pfeffer & Cohen (1984) stated that power relationships, such as unionisation, might affect the development of internal labour markets. Their results showed that non-unionised firms were more likely to develop internal labour markets. The authors hypothesise that this happens in order to avoid unionisation. Pfeffer (1989) has also examined staffing and hiring practices in organisations from a political influence perspective. He approaches hiring standards and criteria as the outcomes of competition among individuals or groups, each attempting to control the types of people that are brought into the organisation to further their own interests. They compete for control over the personnel selection system decision criteria. The winning coalition then structures the staffing system. Kanter & Brinkerhoff (1981), in turn, studied appraisal systems in organisations. They suggest that managers not only try to enhance others' impressions of them, but also try to influence the criteria by which others judge them.

The above does indeed shows that certain practices can be the result of political actions instead of rationally and strategically decision making. Resource-dependence theory and the political influence perspective are thus in essence theories about the determinants of HR practices. Compared to the aforementioned theories, both approaches use a completely different framework in which the link between HRM and performance is not implicitly present.

From a SHRM point of view, this perspective gives a rather 'destructive' impression. In striving for broader organisational goals, hidden agendas have to be taken into account. Whereas the RBV approaches scarcity and economic value of a firm's resource as a source of competitive advantage, the resource dependency theory sees it as a source of power. In the same line of reasoning, one can state that the role of HRM is important in both views, but for other reasons. If the organisation realises that good human resources are scarce and valuable, this can increase the power base of the HR function. This is actually a positive element. The consolidation of the HR function is a necessary condition in order to introduce HR practices in a more strategic way. The role of the HR manager, as well as the question whether he/she is part of the 'dominant coalition', are central issues in this perspective. These approaches are certainly interesting with regard to broader (S)HRM literature in that they could be used to understand the destructive powers in the development of HRM or the position of the HR manager in organisations. They can thus certainly contribute to a better understanding of the determinants of HRM. Although HRM is usually considered as a given in studies on the HRM-performance link, it may also explain the (absence of) impact of HRM on broader organisational performance.

Institutional theory: the way organisations are, is the legitimate way to organise

Apart from internal political forces, a variety of exogenous influences can restrict management's room for manoeuvre (Boselie & al., 2001) or affect the adoption of particular personnel practices. These external factors include such things as governmental regulations, labour market conditions, current management fads and industry norms (Jackson & al., 1989).

The basics

Institutional theory suggests that firm managers take these external factors into account to formulate their HR policies and practices (Eisenhardt, 1988). A distinction can be drawn between external factors that *restrict* the choices of management, such as legislation or labour market conditions, and external influences that do not restrict, but *guide* the choices of management, such as management fads or industry norms.

The first category of factors is imposed upon management by external players (government or trade unions) or conditions (labour market condition or economic climate). (HR) Managers cannot neglect them without taking risks. If legislation prescribes that an employees council should be introduced in firms of 100 employees and more, the firm will have to introduce this form of structural participation. Trade unions can exert pressure to upgrade compensation or can prevent the introduction of financial participation. Extreme shortage of qualified staff on the labour market can enhance training efforts within the company. Boselie & al. (2001) plead to take these differences in context into account, both from an economic and industrial relations point of view. They state that the majority of the literature concerning the link between HRM and performance originates from the USA or UK. The resulting body of empirical work suggests innovative HR practices without taking into account differences in institutional or cultural settings. The question arises whether these models, however appropriate they might be for the USA or UK, hold in other contexts. This view can thus be very useful for explaining differences in HR practices that occur in organisations facing different legal environments (Jackson & al., 1989) or having different cultural backgrounds.

The second category of factors are not imposed upon management, but do influence them, according to institutional theorists. They argue that organisations copy practices they see being used by others and/or they adopt practices to gain legitimacy and acceptance. Eisenhardt (1988) describes the key idea of institutionalism as follows: *'Much organisational action reflects a pattern of doing things that evolves over time and becomes legitimated within an organisation and an environment. Therefore, it is possible to predict practices within organisations from perceptions of legitimate behaviour derived from cultural values, industry tradition, firm history, popular management folklore, and the like. Things are done in a certain way simply because it has become the only acceptable way of doing them.'*

Policies or practices that are introduced this way and have evolved over time are often resistant to change, even in the face of major changes within the company, e.g. in job content or used technology. Structures and processes become part of an integrated whole in which it is difficult to change any part without unravelling the whole or without meeting resistance to this change. Whereas the RBV sees path dependency and social complexity as attributes contributing to competitive advantage, institutional theory also discusses the fact that both can be source of resistance when change is needed. This is in contradiction with the need of flexibility in SHRM literature. In short, the 'social architecture' can be constructive at one time, but can become destructive at another.

Relevance to the HRM-performance discussion

In accordance with the resource dependence and the political influence perspective, institutional theory focuses on non-strategic determinants of HR practices. Contrary to resource dependence and political influence theory, the institutional theory has been used in empirical research on the HRM-performance link. The idea that differences in cultural or institutional settings may have an impact on the HRM in organisations has been subject of many comparative studies (Boselie, 2002; Boselie & al., 2001; Ichniowski & Shaw, 1999; Ngo & al. 1998). Boselie (2002) assumes that institutional theory can also provide useful insights in the HRM-performance field. We briefly discuss his work.

Boselie (2002) suggests that significant institutional differences between the USA and the Netherlands affect the relationship between HRM and performance. Secondly, he also assumes that there are institutional differences within one country, more specifically on the level of branches of industry, that can have an impact on the HRM-performance relationship. His empirical analysis is focused on the latter assumption. In order to develop his conceptual framework (**Figure 4**), he relies on the neo-institutionalism of Dimaggio & Powell (1983). These authors state that 'as managers try to change their organisations in response to institutional pressures, they make them increasingly similar'. They call this process '*institutional isomorphism*'. Three mechanisms are said to influence decision-making in organisations and thus the process of isomorphism: (1) *coercive mechanisms* – which stem from political influence and the problem of legitimacy, (2) *mimetic mechanisms* – which result from standard responses to uncertainty, e.g. imitation and (3) *normative mechanisms* – which stem from norms and values inherent to the profession of employees. Roughly, one could say that the coercive factors are the external factors that restrict managers in taking decisions. Mimetic and normative mechanisms on the other hand are the factors guiding managers in taking decisions.

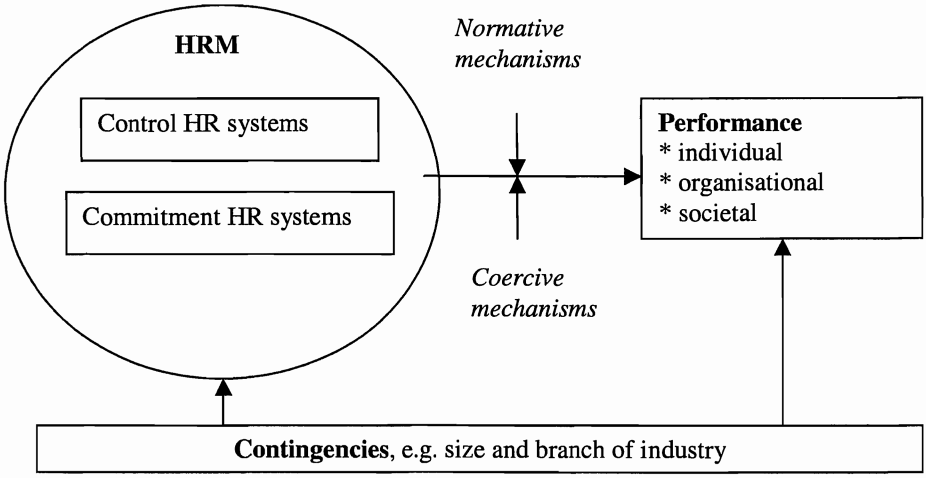

Figure 4 Conceptual model (Boselie, 2002)

Boselie (2002) fits these mechanisms in with the Dutch context. According to him, *coercive mechanisms* include the influence of social partners (the trade unions and works councils), labour legislation and government. *Mimetic mechanisms* refer to imitations of strategies and practices of competitors as a result of uncertainty, or fads in the field of management (benchmarking). It is difficult to determine whether certain practices are the result of pure imitation or have their roots in strategy formulation. Implementation of, e.g. 360-degree feedback systems or the HR scorecard may either have a strategic foundation or may simply be the a result of imitation. *Normative mechanisms* refer to the relation between management policies and the professional background of employees in terms of educational level, job experience and craftmanship. This mechanism assumes that the degree of professionalisation of employees affects the nature of a management control system and its related practices.

In his empirical research he focuses on coercive and normative mechanisms. He states that both mechanisms have an homogenizing effect on organisations. High degrees of institutionalisation differ from low degrees of institutionalisation with respect to the shaping of HRM, but also with respect to the nature of the HRM-performance relationship. The hypothesis that highly institutionalised organisations are more homogeneous with respect to works systems than less institutionalised organisations is accepted. However, the hypothesis that the impact of work systems on performance decreases as institutionalisation increases is not accepted. We think that this perspective can be useful in explaining the determinants of HRM. Despite the fact that HRM is often seen as a given in studies on the impact of HRM on organisational performance, this approach may be useful in explaining the (lack of a) consistent relationship between HRM and organisational performance.

Conclusion: where the story ends ... or just begins

Theories, if accurate, fulfil the objectives of prediction and understanding the relationships among the variables of interest. It's all about *knowledge of the outcome*, to guide a practitioner's decision making in conditions of uncertainty, and *knowledge of the process*, to test and revise a model in order to increase its accuracy (Wright & McMahan, 1992). Especially in order to test the accuracy of the aforementioned approaches, empirical studies are very important. The story does thus not end with the theory. On the contrary, empirical work is needed to test, refine and clarify theoretical issues (Guest, 2001). However, it is not because the story does not end here, that we cannot conclude on the absence or presence of theory in the HRM-performance research.

The full picture

The above is the result of a journey of exploration through the (S)HRM-performance literature. We discussed the six theoretical models as proposed by Wright & McMahan (1992) and extended their framework with other theories in order to get a full picture. Both internal and external, strategic and non-strategic determinants of HRM got a chance. Both the individual and organisational level of analysis have been discussed.

In summary, we can conclude that this research field has a wide scope and integrates economical, psychological as well as sociological lines of approach. These are not necessarily in contradiction, but are complementary in that they all describe one or more of (the relationships between) the building blocks of the broader theoretical framework visualised in **Figure 5**. The arrows reflect a causal link which flows from practices through people to performance. The purpose of this figure is to give an overview of the elements that are covered by theory and to spot possible gaps in theory building.

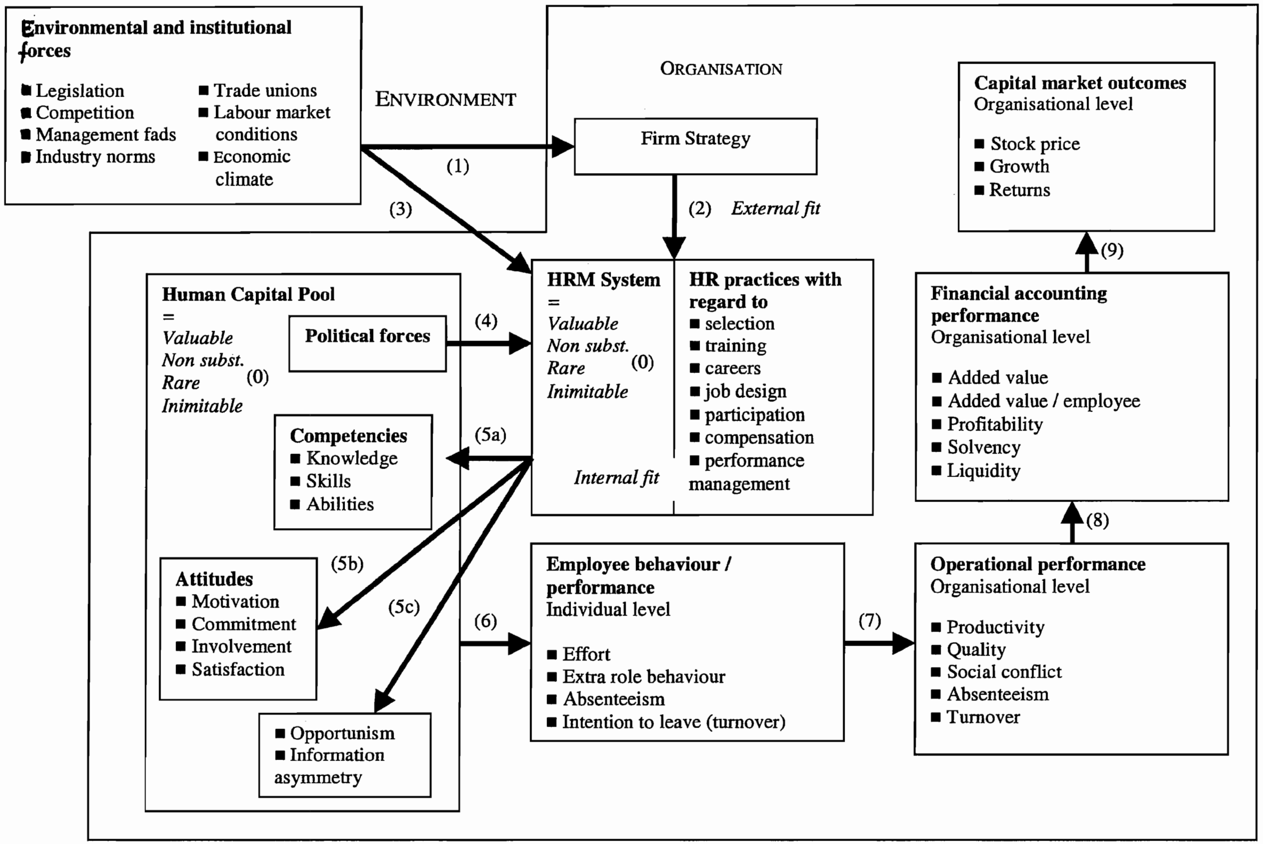

Figure 5 The relationship between HRM and performance

In what follows, we summarise the basics and relevance of the theories and go more deeply into the performance issue. The Resource-based view of the firm gives an answer to the question *'When do human resources and/or human resource management matter (more)?'*. The work of Wright, McMahan & McWilliams (1994) is important in this respect because their contribution provides a theoretical discussion of the reason why and the circumstances under which human resources can be a source of sustained competitive advantage. Other authors argue that the HR system can be a source of competitive advantage as well. The RBV thus provides a rationale for the reason why employees (labour) and human resource management should be considered when studying or pursueing competitive advantage and firm performance (0). The underlying assumption of human capital theory is that HR practices have a positive impact on KSAs (5a) and subsequently on productivity (7). This theory suggest that HRM influences firm performance indirectly and uncovers the underlying HRM-performance mechanism. The behavioural approach goes more deeply into this mechanism, namely by taking the mediating role of employee behaviour into account (6). Firm strategy is formulated in answer to strategic business needs such as e.g. management's overall plan for survival, growth or profitability and is influenced by environmental factors such as competition or economic climate (1). According to Becker & Huselid (1998), the behavioural perspective is complemented by the RBV. The former focuses on how HRM creates firm capabilities – i.e. the characteristics (KSAs) and behaviour of the human capital pool (5a and 6) -, the latter emphasises the attributes required so that firm capabilities can generate competitive advantage (0). Both approaches are dominantly present in empirical literature. Although the above perspectives provide a first explanation, the black box remains partly closed because it does not answer the question 'Why do people act the way they do?'. Equity, expectancy, social exchange and psychological contract theory lift a corner of the veil and describe some of the cognitive processes that can influence decisions about workplace behaviour (5b and 6). Agency and transaction cost theorists, in turn, believe that employees act expediently, but approach this problem in a more rational way. They state that one can avoid opportunistic behaviour by designing an optimal contract and by using the right incentives to steer the employee's behaviour in the direction of the organisational goals (5c and 6).

In all of the aforementioned perspectives, strategy and organisational goals play a central role (2). These approaches also assume that the fit between organisation and individual represents a quite attainable objective. However, more political oriented and institutional theorists argue that environmental and internal political factors can play a major role in determining decisions about HRM and that attaining a fit between organisation and individual could be more difficult than expected. The political influence perspective, as well as the resource dependence model, take political games, power and control into account (4). They approach HR practices as the outcome of a political 'game'. The more sociologically oriented institutional theory draws attention to external factors restricting management's room for manoeuvring or influencing the decisions concerning HRM (3) and sees HR practices as a product of imitation, legislation and normative powers. We believe that the political and institutional theories add value to research on the development of HRM in organisations. As far as studies aiming at measuring the impact of HRM on performance are concerned, they could explain the (lack of a) relationship between HRM and organisational performance.

Compared to the conceptual model of Wright & McMahan (1992; **Figure 1**), this framework focuses more explicitly on the causal chain from employee performance to firm performance (Guest, 2001; Guest, 1997; Dyer & Reeves, 1995). Until now, we did not pay attention to theories on performance and effectiveness. However, being the dependent variable in our story, we cannot neglect this issue. What makes some firms excellent and others weak? Does one have to use objective or subjective measures of performance? From whose perspective - there are as many definitions of performance as there are stakeholders - is performance being assessed? Rather than theoretical problems, the issue of criteria identification appears to be the biggest concern in the field of assessing organisational effectiveness (Cameron, 1986). A comprehensive overview of the different criteria that can be used in HRM-performance research lies beyond the scope of this review article. We will confine ourself to the level of analysis that has to be chosen. Performance can be assessed on an individual, group, organisational, sector or country level. In our framework both the individual and organisational level are important. Based upon the work of other authors (Guest, 2001; Rogers & Wright, 1998; Becker & al., 1997; Dyer & Reeves, 1995) we believe that outcomes can be differentiated at hierarchical levels, with outcomes at one level contributing (along with other factors) to outcomes at the next level. Although the models found in literature differ in the number of levels and the exact outcomes, a generic form of the model is that HR practices have their most direct impact on employee behaviour/performance (6) and subsequently to what we call 'operational' performance (7). This operational performance, in turn, contributes to higher level organisational performance constructs, such as financial accounting performance (8) and market performance (9).

No theory? Old theory? Good theory, bad research? We already mentioned in the introduction that theories have been developed in three main areas concerning HRM and performance: (1) performance measures to be used, (2) HR practices and measures appropriate to study the link with performance and (3) the nature of the linkage between the two variables (Truss, 2001). It was our purpose to go thoroughly through the perspectives that have been put forward in order to explain and understand the link between the two variables. As far as this area is concerned, we conclude that it does not suffer from a lack of theories. On the contrary, the existing theories include economical, sociological as well as psychological perspectives and all together they shed some light on how HRM might be determined and how the mechanisms within the black box might work. Moreover, conditions are proposed under which HRM can lead to higher performance. Despite this rich reservoir of theories and the pile of empirical articles that try to *'peel back the onion'* (cf. Becker & al., 1997), both theorists and empiricists have the feeling that 'there is still a lot of work to do. They are struggling with some major problems. These problems are, in our opinion, due to three factors: (1) the difficulties the (combination of) aforementioned theories impose on empirical research, (2) a lack of theory building in the field of HRM and performance measurement and (3) the constant theoretical reorientation because of the ever returning criticism. With regard to the first and the second point, we rely on the major gaps that are often cited in empirical research: (1) the level(s) of analysis (individual, group and/or organisational level), (2) the lack of a construct of performance, (3) difficulties with performance criteria identification, (3) no consensus with regard to the practices that are part of HPWS, (4) no uniformity in measurement of HRM systems (level of analysis in the HRM architecture), (5) no uniformity in performance measurement and (6) the problem of reversed causality (isn't it the other way round?). Finally, because the need for theory building is being constantly repeated, a process of theoretical reorientation is started off. This constant theoretical reorientation can hinder the empirical process to develop and to explore the existing theories fully.

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[i] In the sense that the level of analysis is the firm and not the individual

[ii] According to Daft (1983) and Barney (1991), *firm resources* include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness.

[iii] *Physical capital resources* include the physical technology used in a firm, a firm's plant and equipment, its geographic location and its access to raw materials. *Human capital resources* include the training, experience, judgement, intelligence, relationships, and insight of individual managers and workers in a firm. *Organisational capital resources* include a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment (Barney, 1991).

[iv] (Porter, 1980) In accordance with broader organisational strategy and implying needed role behaviour.

[v] Central to an innovation strategy is the issue of developing products or services different from those of competitors. The primary focus is on offering something new and different (Porter, 1980, 1985).

[vi] (Porter, 1980) In accordance with broader organisational strategy and implying needed role behaviour.

[vii] *Motivation* refers to forces within an individual that account for the level, direction and persistence of effort expended at work. *Organisational commitment* refers to the degree to which a person strongly identifies with and feels part of the organisation. *Job involvement* is the willingness of a person to work hard and apply effort beyond normal job expectations. *Job satisfaction* can be defined as the degree to which individuals feel positively or negatively about their jobs. It is an attitude or emotional response to work tasks as well as to the physical and social conditions of the workplace (Schermerhorn & al., 1998).